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gb

2012

Goodbaby International Holdings Limited

Stock Code: 1086

Annual Report

gbinternational.com.hk

CONTENTS


gb

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Directors

Ms. Chiang Yun
Mr. Ho Kwok Yin, Eric
(appointed on 1 February 2013)

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

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

LEGAL ADVISOR

As to Hong Kong law

Sidley Austin

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

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P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE

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Jiangsu Province, 215331
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2001, 20th Floor
Two Chinachem Exchange Square
338 King's Road
North Point
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

www.gbinternational.com.hk

STOCK CODE

1086

Chairman's Statement

CHAIRMAN'S STATEMENT

Mr Song Zhenghuan
Chairman

Dear Shareholders,

Thank you for your care and support which has given Goodbaby a strong motivation and the wisdom that it needed to strive forward in the post-financial crisis market conditions and to emerge as an industry global winner in a leading position with good development prospects.

In 2012, Goodbaby achieved enviable results with an operating revenue of approximately HK$4,550 million, up by 15.5% year-on-year ("yoy"). Our China market contributed approximately HK$1,300 million to our revenue, up by 30.2% yoy while our international markets contributed approximately HK$3,250 million, up by 10.6% yoy. Our profit amounted to approximately HK$180 million, up by 3.0% yoy, with profit from our core businesses amounting to approximately HK$170 million, up by 67.0% yoy.

We take even greater pride in the overall improvements in Goodbaby's soft power in 2012. In China, our "gb 好孩子" brand further expanded its market share and continued to be the clear market leader for 19 consecutive years, closely followed by our other brand "小龍哈彼 HAPPY DINO" ranking second in China's durable juvenile products market. With the continued implementation of our in-depth distribution strategy, our network management system already covers over 14,000 outlets in tier 1 to tier 5 cities throughout the entire country and our POS-based information management system has been implemented in over 2,000 maternity and childcare specialty stores. A regional uniform pricing and active logistics management strategy is already in full force and a comprehensive, orderly, efficient and seamless distribution platform is fast taking shape. In addition, we began to see Goodbaby's e-business strategy rolled out in full force in the China market yield results in online sales, brand marketing and customer relationship management. Our e-business channels operate with the use of both third party platform stores and online distribution stores on a complimentary basis. We are rapidly developing products specifically for online sales and for online stores. The benefits brought about by standardized e-business channel management have been significant. Our e-business is growing rapidly with a target towards the "online to offline (O2O)" model.

Internationally, our self-owned "gb", "Goodbaby" and "Geoby" brands continued to grow notably both in terms of brand influence and market penetration. The Group's OBM business grew rapidly with total sales exceeding HK$300 million, up by 36.0% yoy, and demonstrated an optimistic development trend. The OPM and ODM businesses conducted in collaboration with our international major strategic partners enjoyed further stable development and growth. The continuous strengthening of our international marketing team has significantly enhanced our active marketing capability. Expansion of our business platforms has laid a solid foundation for the Group's market-oriented and customer-oriented operating strategy and its sales, R&D and manufacturing all-in-one integrated operating model.

Our innovation research system and our manufacturing business and supply chain system – both being the cornerstones of Goodbaby's future development – also achieved significant results in 2012. Our five research centers located in the United States, Holland, Japan, Hong Kong and Kunshan in China respectively applied for a total of 535 patents in 2012. Our innovative products displayed at an international trade fair held in Hong Kong last January attracted global attention and were tremendously well received by our key customers. In 2012, Goodbaby took part in the setting of 50 standards in Europe, the United States and Japan including the safety standards for baby bouncers in Japan which was led by Goodbaby as the only foreign enterprise that took part in the setting of such safety standards. Goodbaby's laboratories are the only laboratories in China recognized by the Consumer Product Safety Commission ("CPSC") of the United States and have obtained Europe's qualifications for certification of baby car seats. Goodbaby has also made numerous achievements in the application of innovative materials and the development of new technologies and is an industry leader in these areas. Our capabilities and strengths in making industry structural adjustments, formulating and implementing strategies for manufacturing bases and re-engineering supply chains have enabled Goodbaby to face and deal with the challenges of rising costs with ease and have enhanced our competitiveness.

With our edge in core capabilities in sales, R&D and manufacturing and our integrated strengths in brand, channels and teams, everyone at Goodbaby is highly confident about 2013 and we see the opportunity for Goodbaby to undergo changes and transform itself from a good enterprise to an excellent enterprise. We will make further improvements and implement a transformation and upgrading strategy to integrate our capabilities in management, brand sales, supply chain management, R&D and technology innovation. We strive to win customers' satisfaction with our own corporate value. We also aim to create market opportunities and continuously develop our competitive advantages in the global market so as to realize our goal of becoming a world-class enterprise.

We have both faith and capabilities to build a great business for the future. We will spare no efforts and do our best to meet your expectations in this regard.

I look forward to your continuing guidance, encouragement and support. Thank you.

Yours sincerely,
Song Zhenghuan
Chairman

19 March 2013


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Management Discussion & Analysis

OVERVIEW

For the financial year ended 31 December 2012, Goodbaby International Holdings Limited (the "Company" and "our Company") and its subsidiaries (collectively the "Group", "our Group", "we", "our" and "us") recorded total revenue of approximately HK$4,554.5 million, representing an increase of approximately 15.5% as compared to HK$3,941.7 million in 2011. Operating gross profit was approximately HK$871.9 million, representing an increase of approximately 29.4% as compared to HK$673.7 million in 2011. Profit for the year reached approximately HK$183.1 million, representing an increase of approximately 3.0% as compared to HK$177.7 million in 2011. Of which, profit from core operations (referring to operating profit after deducting other income and other expenses) was approximately HK$169.2 million, representing an increase of approximately 67.0% as compared to approximately HK$101.3 million in 2011.

From a geographical perspective, the increase in the Group's revenue was attributable to revenue growth across all our major markets, namely, China[Note 1], North America[Note 1], European Market[Note 1] and Other Overseas Markets[Note 1]. For the financial year ended 31 December 2012, the Group's revenue derived from these four markets grew by 30.2%, 16.6%, 3.9% and 12.6% respectively as compared to the revenue in 2011. From a products perspective, the increase in the Group's revenue was attributable to a growth in revenue across all product categories. For the financial year ended 31 December 2012, the Group's revenue derived from strollers and accessories, car seats and accessories and other durable juvenile products grew by 7.1%, 46.6% and 17.6% respectively as compared to the revenue of 2011. For a detailed analysis of the Group's revenue and profit, please refer to the section headed "Financial Review" of this report.

KEY OPERATIONS REVIEW AND OUTLOOK

1. **Outstanding performance in the China market.**

    (1) Rapid revenue growth. Benefiting from effective implementation of our strategy in the China market, the Group's revenue derived from the China market reached HK$1,303.1 million in 2012, representing an increase of approximately 30.2% as compared to HK$1,000.8 million in 2011 (the Group's revenue derived from the China market in 2011 increased by 20.5% as compared to its revenue derived from the China market in 2010). The revenue from China market accounted for approximately 28.6% of the Group's revenue in 2012 compared to approximately 25.4% in 2011.

    (2) Steady growth in gross profit margin. Benefiting from consumption upgrade in the China market and the Group's highly competitive products, the Group's gross profit margin in the China market increased steadily from 24% in 2011 to 25.5% in 2012.

Note 1: For purposes of this report , "China" means the People's Republic of China, excluding Taiwan, Hong Kong Special Administrative Region and Macao Special Administrative Region; "North America" means the United States and Canada; "European Market" means countries in Europe to which the Group sells its products, namely, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom; "Other Overseas Markets" mean overseas markets other than North America and European Market, namely, Russia, Japan, South America, Middle East, Southeast Asia and India.

(3) Double-digit growth across all product lines. In 2012, the Group's product lines in the China market, including strollers, car seats, ride-ons and related products, and other durable juvenile products, have all recorded at least double-digit growth. The performances of strollers and car seats were particularly outstanding, which grew by 39.4% and 175.9% respectively as compared to 2011.

(4) Parallel growth of two core brands. In 2012, revenue from products of the Group's two core brands in the China market, namely the "Goodbaby" brand and the "Happy Dino" brand, recorded strong growth. It is particularly encouraging to note that revenue from the higher price and higher gross profit margin products sold under the "Goodbaby" brand continued to maintain faster growth. In 2012, the Group's revenue from products under the "Goodbaby" brand and the "Happy Dino" brand accounted for 45.4% and 54.6% respectively of the total revenue from the China market, and revenue from the two brands grew by 40.4% and 22.8% respectively as compared to 2011.

(5) Continued development of in-depth distribution management system. In 2012, while maintaining strong coverage of major department stores and hypermarkets, the Group continued to rapidly expand its direct coverage of the maternity and childcare specialty stores. As at 31 December 2012, the number of maternity and childcare specialty stores that have established direct relationships with the Group increased to 14,201 from 10,894 as at 31 December 2011, of which 11,984 were also covered by the Group's in-depth distribution management system as compared to 7,000 as at 31 December 2011. Meanwhile, the geographical span of the Group's in-depth distribution management system also expanded to 27 provinces and cities as at 31 December 2012 up from 11 provinces and cities as at 31 December 2011. On 1 December 2012, the Group offically implemented its POS terminals project in the maternity and childcare specialty stores to encourage full price consumption through a bonus point redemption policy. This will cultivate customer loyalty and manage market pricing system, and ultimately achieve an end-user driven sales model. As at 31 December 2012, the Group has installed POS terminals in 2,074 maternity and childcare specialty stores.

(6) Full extension of online distribution channels. In 2012, the Company has established a marketing management system specifically addressing online channels. Our system covered 360Buy.com and dangdang.com, and extended its online network with 81 franchise stores and 250 consignment stores. In 2012, we launched over 60 special items and made-to-order products for online sales.

2. Continuous growth and gross profit margin improvement in the overseas markets.

(1) Double-digit revenue growth. Benefiting from the continuous implementation of the Group's customer diversification, product diversification and market diversification strategy, the Group's revenue derived from the overseas markets in 2012 was approximately HK$3,251.4 million, representing an increase of 10.6% as compared to approximately HK$2,940.9 million in 2011.

(2) Significant increase in gross profit margin. Benefiting from the Group's improvement in cost efficiency and accelerated launching new products, the Group's gross profit margin in North America and European Market improved in 2012 (as compared to the gross profit margin in 2011). In the Other Overseas Markets, the Group achieved breakthrough progress in its strategy of product optimization and profit improvement. Through implementing specific measures such as product optimization, customers selection, and minimum order controls, the Group significantly improved its profitability in these markets. In 2012, the Group's gross profit margin in the Other Overseas Markets increased to 17.0% from 11.6% in 2011.

(3) Steady development in self-owned brand business. The Group continued to promote its self-owned brands in the Other Overseas Markets and participated in a series of industry exhibitions, including the Hong Kong Toys & Games Fair, the Toys & Kids Russia, the Tokyo Baby & Kids Expo and the Seoul International Fair for Mother & Baby. Through launching in new products with brand new concepts, the Group has given peers in our industry an in-depth understanding of the "gb" brand and has also gained brand recognition from them. During 2012, the Group recorded revenue of HK$330.2 million attributable to self-owned brand products, representing an increase of 36.0% as compared to the corresponding period in previous year.

3. Remarkable achievements of the product diversification strategy.

In recent years, while continuing to strengthen and develop its stroller products and maintaining continuing growth in the Group's stroller business, the Group has also strived to accelerate the development of its car seats and other durable juvenile product business. In 2012, the Group's revenue attributable to products other than strollers and accessories amounted to HK$2,483.9 million, accounting for 54.5% of the Group's total revenue and representing an increase of 23.7% as compared to 2011, of which revenue attributable to car seats and accessories amounted to approximately HK$618.0 million, representing an increase of 46.6% as compared to 2011, and revenue attributable to other durable juvenile products amounted to approximately HK$1,865.9 million, representing an increase of 17.6% as compared to 2011. In 2012, the Group launched a total of 231 new car seats and other durable juvenile products. As at 31 December 2012, a total of 261 new such products are at the research and development stage.

4. Sustained enhancement in core capabilities.

In 2012, the Group launched a total of 491 new products, of which 68 were brand-new products and 423 were improved products. Meanwhile, the Group has applied for a total of 535 patents in 2012. As at 31 December 2012, there were 499 new products at the research and development stage, of which 184 were brand-new products and 315 were improved products. Meanwhile, the Group is committed to expanding the development of high value-added new products. In 2012, the

Group continued to promote revolutionary products and brand-new design concepts, with the most representative including reversible handle umbrella strollers, single and double convertible stroller, intelligent rocking chair and intelligent car seat, all of which were pioneered by us in the industry. In March 2013, the Group won the Red Dot Design Award for the third time for the Gramma stroller products developed by the Group in 2012, following its winning of the award for its Emotion products and E-pushchair Myothronic products in 2010 and 2011 respectively, reflecting that the Group's strength in R&D continued to be highly recognized by international organizations.

In February 2012, the central laboratory of the Group was accredited by the Consumer Product Safety Commission ("CPSC") of the United States as an officially accredited laboratory following recognition by Societe Generale de Surveillance ("SGS") of Switzerland and TUV Nord Group of Germany as their collaborating laboratory in 2011. In 2012, the central laboratory of the Group also became the ECE R44 certification testing laboratory for children's car seats accredited by TUV Nord Group and SGS.

As at of the end of 2012, the Group has led or participated in the compilation or revision of an accumulated 57 PRC national standards, of which 25 were in 2012; participated in voting of an accumulated 78 US standards, of which the Group participated in 48 standards in 2012; participated in the revision of one European standard in the cumulative, of which the Group participated in one standard in 2012, and participated in the compilation of one Japanese national standard in the cumulative, of which the Group participated in one standard in 2012. On 1 July 2012 and 1 August 2012, the PRC national standards on children's car seat products and juvenile furniture, with participation from the Group throughout its entire compilation process, were officially implemented.

In 2012, the Group integrated its manufacturing resources in China and continued to increase the percentage of outsourcing, and the percentage of outsourced accessories increased to 50% from 45% in previous year. The percentage of outsourcing for accessories held-for-sale and finished products increased to 25.5% from 19.9% in previous year. Meanwhile, through the effective organization of production lines, enhancement in automation and streamlined management, the Group effectively coped with challenges from rigidly rising labor cost.

The Group was among the first in the world to introduce the "Cradle to Cradle" ("C2C") carbon-free and recycling concept to the global durable juvenile products sector. In 2012, the C2C project continued to develop. The Group launched the second generation C2C products for the first time at the Shanghai Toy Expo 2012, and the project was also displayed at the Floriade International Gardening Expo in the Netherlands. The United Nations Industrial Development Organization ("UNIDO") also conducted a site visit of the project which received public attention from both within and outside of the industry. The Group's research project on the application of the C2C concept has been running for over 4 years. Our continuous investment and development in this area will give the Group a head start in establishing leading position in the future and taking the global durable juvenile product industry to new heights.

The global economy will continue to face uncertainties in 2013, with the weak growth momentum in the total retail sales figure for social consumption goods in China. Meanwhile, we have also observed a certain degree of rigidity in the durable juvenile products operated by the Group. In 2013 and as we have done so in the past, we will continue to implement the Group's core strategies and policies which are as follows:

(1) We will continue to proceed with an in-depth distribution management system in the China market in order to penetrate all levels of retail outlets across China, grasp end-user consumption pattern of maternity and childcare specialty stores through the POS system in order to gain good understanding of market trends and consumer demands. We continued to expand the coverage of our e-commerce platforms, covering Sunning, Tencent and Gome, and further develop online distributors, online franchise stores and made-to-order business model. In addition, we commenced online branding marketing, promoting the pre-sale business model and developing the "online to offline" (O2O) interactive sales model. All these aimed to reinforce our strong foothold in traditional channels such as department stores and hypermarkets, enhance brand image and maintain a rapid growth in the China market.

(2) In the international market, we are still facing enormous uncertainties in demand. On the basis of maintaining stable operations for our existing business, we will double our efforts in the implementation of proactive marketing strategies to broaden our customer base. We will invest in market-oriented new products targeting the full spectrum of sales channels and customer base in order to fully cover all market segments.

(3) We will continue to promote our self-owned brands in the Other Overseas Markets, develop targeted high value-added new products and enhance the market position of our self-owned brands.

In addition, the Group will continue to implement its product diversification strategy and will strive to extend the brand influence of our stroller business to the business of car seats and other durable juvenile products. We will also continue to actively develop our outsourcing capabilities in order to reduce procurement costs, improve supply chain efficiency and strengthen the development of our core capabilities to provide in a timely and effective manner strong support to respond to market changes.

FINANCIAL REVIEW

Revenue

Total revenue of the Group increased by 15.5% from approximately HK$3,941.7 million for the year ended 31 December 2011 to approximately HK$4,554.5 million for the year ended 31 December 2012.

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
	2012		2011		2012
	Sales (HK$ million)	% of sales	Sales (HK$ million)	% of sales	vs 2011 Growth
European Market	**1,271.0**	**27.9%**	1,222.8	31.0%	3.9%
North America	**1,330.1**	**29.2%**	1,140.8	28.9%	16.6%
China	**1,303.1**	**28.6%**	1,000.8	25.4%	30.2%
Other Overseas Markets	**650.3**	**14.3%**	577.3	14.7%	12.6%
Total	**4,554.5**	**100.0%**	3,941.7	100.0%	15.5%

Revenue from European Market increased by 3.9% to approximately HK$1,271.0 million for the year ended 31 December 2012 from approximately HK$1,222.8 million for the year ended 31 December 2011. Such increase was attributable to the increase in revenue from car seats and accessories and other durable juvenile products, which was partially offset by the decrease in revenue from strollers and accessories.

Revenue from North America increased by 16.6% to approximately HK$1,330.1 million for the year ended 31 December 2012 from approximately HK$1,140.8 million for the year ended 31 December 2011. Such increase was attributable to overall increase in revenue from all product lines.

Revenue from China increased by 30.2% to approximately HK$1,303.1 million for the year ended 31 December 2012 from approximately HK$1,000.8 million for the year ended 31 December 2011. Such increase was attributable to overall increase in revenue from all product lines.

Revenue from Other Overseas Markets increased by 12.6% to approximately HK$650.3 million for the year ended 31 December 2012 from approximately HK$577.3 million for the year ended 31 December 2011. Such increase was attributable to the increase in revenue from strollers and accessories and car seats and accessories.

Revenue by Products

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

	For the year ended 31 December				Growth analysis
	2012		2011		**2012**
	Sales (HK$ million)	**% of sales**	Sales (HK$ million)	% of sales	**vs 2011 Growth**
Strollers and accessories	**2,070.6**	**45.4%**	1,933.6	49.1%	7.1%
Car seats and accessories	**618.0**	**13.6%**	421.5	10.7%	46.6%
Other durable juvenile products	**1,865.9**	**41.0%**	1,586.6	40.2%	17.6%
Total	**4,554.5**	**100.0%**	3,941.7	100.0%	15.5%

Revenue from strollers and accessories increased by 7.1% to HK$2,070.6 million for the year ended 31 December 2012 from approximately HK$1,933.6 million for the year ended 31 December 2011. Such increase was attributable to increased revenue from China, North America and Other Overseas Markets, which was partially offset by decreased revenue from European Market.

Revenue from car seats and accessories increased by 46.6% to approximately HK$618.0 million for the year ended 31 December 2012 from approximately HK$421.5 million for the year ended 31 December 2011. Such increase was attributable to increased revenue from all regions.

Revenue from other durable juvenile products increased by 17.6% to approximately HK$1,865.9 million for the year ended 31 December 2012 from approximately HK$1,586.6 million for the year ended 31 December 2011. Such increase was attributable to increased revenue from China, North American and European Market.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 12.7% from approximately HK$3,268.0 million for the year ended 31 December 2011 to approximately HK$3,682.6 million for the year ended 31 December 2012. Such increase was primarily due to increased costs due to higher production driven by higher demand for the Group's products.

As a result of the foregoing, gross profit increased by 29.4% from approximately HK$673.7 million for the year ended 31 December 2011 to approximately HK$871.9 million for the year ended 31 December 2012. Gross profit margin increased from 17.1% for the year ended 31 December 2011 to 19.1% for the year ended 31 December 2012. The improvement in gross profit margin was mainly attributable to higher proportion of gross profit by China and Other Overseas Markets.

Other Income and Gains

Other income and gains decreased by HK$52.1 million from approximately HK$106.1 million for the year ended 31 December 2011 to approximately HK$54.0 million for the year ended 31 December 2012. Such decrease was mainly due to realization of gains of approximately HK$50.4 million on forward currency contracts settled and unsettled during the period ended 31 December 2011 while there were losses of approximately HK$3.2 million on forward currency contracts settled during the period ended 31 December 2012 (such losses are included in the financial statements under "other expenses"). The breakdown of such gains and losses is set out as follows:

	For the year ended 31 December	
	2012 (HK$ million)	2011 (HK$ million)
Foreign exchange gains from forward currency contracts settled during the year ended 31 December	**10.7**	33.6
Fair value gains on unsettled forward currency contracts during the year ended 31 December	—	13.9
Adjusted (losses)/gains for the prior year (based on the fair value gains on forward currency contracts unsettled as at 31 December of the prior year)	**(13.9)**	2.9
Net (losses)/gains	**(3.2)**	50.4

As majority of the Group's revenue is generated from sales settled in US dollar while the Group's cost is mainly paid in RMB, any fluctuations in exchange rates of the RMB against the US dollar may cause uncertainty to the Group's profitability. Any depreciation of the RMB against the US dollar will result in a gain to the Group and any appreciation of the RMB against the US dollar will result in a loss to the Group, assuming all other factors remain unchanged. Therefore, the Group manages such uncertainty through purchase of forward exchange contracts denominated in US dollar from time to time to enable the Group to plan and manage its businesses settled in US dollar (e.g. product prices and gross profit) at particular locked-in rates.

As at 31 December 2012, the Group did not have any unsettled forward exchange contracts denominated in US dollar.

Selling and Distribution Expenses

Our selling and distribution costs primarily consist of promotion, salary and transportation expenses. Our selling and distribution costs increased by 32.5% to approximately HK$359.4 million for the year ended 31 December 2012 from approximately HK$271.3 million for the year ended 31 December 2011. Such increase in selling and distribution costs was mainly due to increased salary, transportation expenses, marketing and promotion expenses and office expenses.

Administrative Expenses

Administrative expenses primarily consists of salary, research and development expenses and office expenses.

Our administrative expenses increased by 14.0% from approximately HK$301.1 million for the year ended 31 December 2011 to approximately HK$343.3 million for the year ended 31 December 2012. Such increase was mainly due to higher office expenses and salary.

Other Expenses

Other expenses for the year ended 31 December 2012 amounted to approximately HK$3.4 million as compared to approximately HK$5.7 million for the year ended 31 December 2011.

Operating Profit

As a result of the foregoing, operating profit increased by 9.0% from approximately HK$201.7 million for the year ended 31 December 2011 to approximately HK$219.9 million for the year ended 31 December 2012.

Finance Income

Finance income increased from approximately HK$3.7 million for the year ended 31 December 2011 to approximately HK$7.9 million for the year ended 31 December 2012. Finance income entirely represents interest income on bank deposits.

Finance Costs

Finance costs for the year ended 31 December 2012 amounted to approximately HK$11.9 million as compared to approximately HK$11.6 million for the year ended 31 December 2011.

Profit Before Tax

As a result of the foregoing, profit before tax of the Company (representing the aggregate of gross profit, other income, administrative expenses, selling and distribution expenses, other expenses, finance costs and finance income) increased by 11.4% from approximately HK$193.8 million for the year ended 31 December 2011 to approximately HK$215.9 million for the year ended 31 December 2012.

Income Tax Expense

Income tax expense for the year ended 31 December 2012 amounted to approximately HK$32.8 million as compared to approximately HK$16.1 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was approximately 15.2% as compared to approximately 8.3% for the year ended 31 December 2011.

Profit for the Year

Profit for the year increased by 3.0% from approximately HK$177.7 million for the year ended 31 December 2011 to approximately HK$183.1 million for the year ended 31 December 2012.

Working Capital and Financial Resources

	As at 31 December 2012 (HK$ million)	As at 31 December 2011 (HK$ million)
Trade and notes receivables (including trade receivables due from related parties)	**892.7**	762.4
Trade and notes payables	**791.3**	857.3
Inventories	**624.9**	676.8
Trade and notes receivables turnover days[1]	**66**	62
Trade and notes payables turnover days[2]	**82**	86
Inventories turnover days[3]	**65**	70

Notes:

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

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

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

The balance of trade and note receivables increased by HK$130.3 million from approximately HK$762.4 million as at 31 December 2011 to approximately HK$892.7 million as at 31 December 2012. The increase was mainly attributable to a year-on-year increase in sales of the Group in the fourth quarter of 2012.

The balance of trade and notes payables decreased by HK$66 million from approximately HK$857.3 million as at 31 December 2011 to approximately HK$791.3 million as at 31 December 2012. The decrease was mainly due to our enhanced inventory management and reduced purchases of inventory while ensuring normal production and operation, hence reducing inventory balances.

The balance of inventories decreased by HK$51.9 million from approximately HK$676.8 million as at 31 December 2011 to approximately HK$624.9 million as at 31 December 2012. The decrease was mainly attributable to further improvement in the management of inventories by the Group.

Liquidity and Financial Resources

The Group has established a sound cash management system, including a dedicated cash management division for managing the liquidity of the Group, and an accountability system under which each operating unit is responsible for its own cash flows.

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

As at 31 December 2012, the Group's cash and cash equivalents were approximately HK$633.4 million, of which: HK$525.8 million were denominated in Renminbi, HK$1.3 million were denominated in HK dollars and HK$106.3 million were denominated in other currencies. (As at 31 December 2011: approximately HK$788.4 million, of which: HK$727.4 million were denominated in Renminbi, HK$0.7 million were denominated in HK dollars and HK$60.3 million were denominated in other currencies.)

As at 31 December 2012, the Group's interest-bearing bank borrowings were approximately HK$220.8 million (as at 31 December 2011: approximately HK$326.5 million), of which: HK$0.0 were denominated in Renminbi (as at 31 December 2011: approximately HK$55.5 million were denominated in Renminbi), and approximately HK$220.8 million were denominated in U.S. dollars (as at 31 December 2011: approximately HK$271.0 million were denominated in U.S. dollars). Bank borrowings as at 31 December 2012 and those in corresponding period were charged at variable interest rate.

Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities (as at 31 December 2011: nil).

Exchange Rate Fluctuations

The Group's sales are mainly denominated in U.S. dollars and Renminbi. Our cost of sales and operating expenses are mainly denominated in Renminbi. For the year ended 31 December 2012, approximately 71.4% of the Group's revenue was denominated in U.S. dollars. The Group's gross profit margin will be adversely affected if Renminbi appreciates against the U.S. dollar as the Group is unable to increase the U.S. dollar selling prices of the products sold to the overseas customers. Renminbi appreciated by approximately 0.2% against the U.S. dollar during the year ended 31 December 2012.

The Group usually manages fluctuations in the exchange rate of Renminbi against the U.S. dollar by purchasing forward currency contracts denominated in U.S. dollars. As at 31 December 2012, the Group has not held outstanding U.S. dollar denominated forward currency contracts.

Pledge of Assets

As at 31 December 2012, some of the Group's interest-bearing bank borrowings were pledged by intragroup trade receivables of approximately HK$246.2 million (as at 31 December 2011: approximately HK$256.8 million), and such trade receivables were eliminated in the consolidated financial statements of the Group.

Gearing Ratio

As at 31 December 2012, the Group's gearing ratio (calculated by net liabilities divided by the sum of equity attributable to owners of the parent and net liabilities; the amount of net liabilities is calculated by the sum of trade and notes payables, other payables, advances from customers and accruals, interest-bearing loans and borrowings (current and non-current), dividends payable and amounts due to related parties, minus cash and cash equivalents) was approximately 26.8% (as at 31 December 2011: approximately 27.3%).

Directors & Senior Management

DIRECTORS

Executive Directors

SONG Zhenghuan (宋鄭還), aged 64, is an executive Director, chairman of our Company, chief executive officer and the founder of our Group. With more than 23 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) iin 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., the Company's 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) Jiangsu EQO Testing Services Co., Ltd. (江蘇億科檢測技術服務有限公司);

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

(vi) Goodbaby (Hong Kong) Limited;

(vii) Goodbaby Japan Co., Ltd.;

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

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

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

WANG Haiye (王海燁), aged 47, is our vice president and was appointed as an executive Director of our Company on 19 August 2010. Mr. Wang was our chief operating officer for the period from 18 March 2011 to 17 August 2012. 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 20 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 Company:

(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);

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

(v) Jiangsu EQO Testing Services Co., Ltd. (江蘇億科檢測技術服務有限公司);

(vi) Goodbaby (Hong Kong) Limited;

(vii) Goodbaby Children's Products Inc.;

(viii) Goodbaby Japan Co., Ltd.;

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

(x) Turn Key Design Cooperatie U.A.

Mr. Wang is also a director of PUD, a substantial shareholder of the Company, and an indirect shareholder of PUD through Powergain Global Limited.

Non-Executive Directors

CHIANG Yun (張昀), aged 45, has been a Director of our 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 19 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) Jiangsu EQO Testing Services Co., Ltd. (江蘇億科檢測技術服務有限公司);

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

(vii) Goodbaby Japan Co., Ltd.;

(viii) Turn Key Design B.V.;

* *For identification purpose only*

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

(x) Goodbaby (Hong Kong) Limited.

HO Kwok Yin, Eric (何國賢), aged 55, was appointed as a non-executive Director of our Company on 1 February 2013. Mr. Ho has over 20 years of experience as a solicitor practising primarily corporate laws and in the areas of mergers and acquisitions, private equity and other financing transactions. Mr. Ho was a founding partner of Sidley Austin's Hong Kong office and remained a partner of the firm until his retirement in 2010. Prior to joining Sidley Austin in 1999, Mr. Ho practised as a partner of Allen & Overy's Hong Kong office and before then at other major law firms in Hong Kong as associate following his admission as a solicitor of the Supreme Court of England and Wales in 1987 and admission as a solicitor of the High Courts of Hong Kong in 1988. Mr. Ho received a Bachelor of Social Science Degree from the Chinese University of Hong Kong in 1980.

Independent Non-Executive Directors

LONG Yongtu (龍永圖), aged 69, was appointed as an independent non-executive Director of our Company 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 was Dean of the School of International Relations and Public Affairs at Fudan University from December 2003 to June 2011. He 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 72, was appointed as an independent non-executive Director of our Company on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996 and served as chairman 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 was an independent non-executive director of China Medical Technologies, Inc,. a company listed on NASDAQ, up to 3 July 2012.

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 Securities Trading Limited; 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 MSIG Insurance (Hong Kong) Limited. He is also the chairman of KCS Limited. Mr. Bruce has over 47 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 66, was appointed as an independent non-executive Director of our Company 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)).

SENIOR MANAGEMENT

LIU Tongyou (劉同友), aged 45, 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 18 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 45, 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 the Economics School of Peking University （北京大學經濟學院） 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 56, 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 26 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 children's health organization in the United States.

HE Xinjun (賀新軍), aged 53, is our vice president and a senior engineer, 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 18 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 45, is our vice president primarily responsible for overseeing the whole quality control process and functions of the Group and the COO of the Company. Mr. Zhu joined the Group in 2006 and he has since then successfully integrated international advanced quality management concepts and tools into the management system and culture of the Group and achieved remarkable results.

Prior to joining the Group, Mr. Zhu was the regional quality director of Electra Consumer Products from 2005 to 2006. Mr. Zhu has also worked as a quality director for Concord Camera (HK) Limited from 2004 to 2005. Mr. Zhu obtained his Doctorate of Business Administration (DBA) from Grenoble Ecole de Management in June 2011 and won the second prize of the 2012 EDAMBA (European Doctoral Programmes Association in Management and Business Administration) thesis competition. Mr. Zhu obtained his Master's degree in Business Administration from the Southern Illinois University

Carbondale of the United States in May 2001 and was awarded the "Best Student Award". Mr. Zhu was elected as director of the ninth board of directors of China Association for Quality (中國質量協會) in June 2012. He 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 member of the expert team of the Technical Committee of Standardization for Toys of the China Toy & Juvenile Products Association (中國玩具和嬰童用品協會全國玩具標準化技術委員會) 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) in 2011. He is also a member of the fourth "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

PAU Lai Mei (鮑麗薇), aged 53, 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.


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Corporate Governance Report

The board (the "Board") of directors (the "Directors") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2012.

The manner in which the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented is explained in the following sections of this corporate governance report:

CORPORATE GOVERNANCE PRACTICES

The Board of the Company has committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and formulate its business strategies and policies as well as to enhance corporate value and accountability.

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

The Board is of the opinion that throughout the year ended 31 December 2012, the Company has complied with all the code provisions and, where appropriate, adopted the recommended best practices set out in the CG Code (applicable to financial report covering a period after 1 April 2012) and former CG Code from 1 January 2012 to 31 March 2012, save for the deviations from code provisions A.2.1 and A.6.7, which deviations are explained as follows:-

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.

Code provision A.6.7 stipulates that the independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company to develop a balanced understanding of the views of the shareholders.

Due to other commitments, the following non-executive Directors and independent non-executive Directors of the Company did not attend the general meetings of the Company held in 2012:

Name of Director	Annual general meeting held on 25 May 2012	Extraordinary general meeting held on 7 December 2012
Non-executive Director		
Christopher Marcus GRADEL (who has since resigned with effect from 1 February 2013)	Absent	Absent
CHIANG Yun	Absent	Absent
Independent non-executive Director		
Iain Ferguson BRUCE	Attended	Absent
LONG Yongtu	Absent	Absent

All the Directors have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The independent non-executive Directors, Mr. SHI Xiaoguang and Mr. Iain Ferguson BRUCE (chairman of the audit, remuneration and nomination committees of the Company) have both attended the annual general meeting whereas Mr. SHI Xiaoguang has also attended the aforesaid extraordinary general meeting for exchanging views with the shareholders.

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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

The Company has also established a code of conduct no less exacting than the Model Code (the "Employees Code of Conduct") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Code of Conduct by the employees was noted by the Company.

THE BOARD

BOARD COMPOSITION

The Board currently comprises seven members, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors, namely as follows:

Executive Directors
Mr. SONG Zhenghuan *(chairman & chief executive officer)*
Mr. WANG Haiye *(vice president)*

Non-executive Directors
Ms. CHIANG Yun
Mr. HO Kwok Yin, Eric *(appointed by the Board on 1 February 2013)*

Independent non-executive Directors
Mr. Iain Ferguson BRUCE *(chairman of audit, nomination and remuneration committees)*
Mr. LONG Yongtu *(member of audit, nomination and remuneration committees)*
Mr. SHI Xiaoguang *(member of audit, nomination and remuneration committees)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 27 to 33 of this annual report.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. The Board has delegated to the 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.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have access to all the information of the Company as well as the services and advice of the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive 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. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company. An induction has been provided to Mr. HO Kwok Yin, Eric who joined the Board on 1 February 2013.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Since January 2012, all Directors have been required to provide the Company with a record of the training they received on a half yearly basis, and such records have been maintained by the Company. Save for Mr. Iain Ferguson BRUCE, who attended more than 30 hours of training, and Mr. Christopher Marcus GRADEL (who has since resigned with effect from 1 February 2013), who attended about 3 hours of training, each of the other Directors received 9 hours of training in 2012.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company commencing on 24 November 2010 unless terminated by not less than three months notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment.

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. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

BOARD COMMITTEES

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

All members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 3 to 5 of this annual report.

AUDIT COMMITTEE

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings on 16 March 2012 and 17 August 2012 to review annual financial results and report in respect of the year ended 31 December 2011 and interim financial results and report for the six months ended 30 June 2012 as well as significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

The primary functions of the Remuneration Committee include determining/reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once on 16 March 2012 to review and determine/make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

NOMINATION COMMITTEE

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

The Nomination Committee met once on 16 March 2012 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

BOARD MEETINGS

BOARD PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings in 2012					
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Annual General Meeting	Extraordinary General Meetings
SONG Zhenghuan	3/4				1/1	0/1
WANG Haiye	4/4				0/1	0/1
Christopher Marcus GRADEL (resigned on 1 February 2013)	3/4				0/1	0/1
CHIANG Yun	4/4				0/1	0/1
Iain Ferguson BRUCE	4/4	1/1	1/1	2/2	1/1	0/1
LONG Yongtu	4/4	1/1	1/1	2/2	0/1	0/1
SHI Xiaoguang	4/4	1/1	1/1	2/2	1/1	1/1

Apart from regular Board meetings, the chairman also held a meeting solely with the non-executive Directors (including independent non-executive Directors) on 17 August 2012.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 64 to 65.

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, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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 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.

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2012 amounted to HK$4,041,000 and HK$751,000 respectively.

An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2012 is set out below:

Service Category	**Fees Paid/ Payable**
Audit Services	HK$4,041,000
Non-audit Services	HK$751,000
• 2011- 2013 Transfer pricing compliance work for GCPI, GCPC, GCPN, PCPC and GBHK	
• Transfer pricing defence assistance for GCPN	
• GCPI US TP conversion study	
• General US federal income tax advice on the employment arrangement of the new hired CEO	
• Preparation and transmission of GIHL's Hong Kong Profits Tax Returns for years of Assessment 2011/12 together with the supporting tax computations to the Inland Revenue Department	
	HK$4,792,000

COMPANY SECRETARY

Ms. PAU Lai Mei of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary. The primary contact person at the Company is Ms. WANG Qi, the director of the Legal & Compliance Department of the Company.

The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 27 to 33 of this annual report. During 2012, the company secretary undertook over 15 hours of professional training to update her skills and knowledge.

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 and the senior management of the Group (by band) for the year ended 31 December 2012 are set out in note 10 to the financial statements.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet shareholders and answer their enquiries.

However, due to other commitments, an executive Director, Mr. WANG Haiye, the non-executive Directors, Mr. Christopher Marcus GRADEL (who has since resigned with effect from 1 February 2013) and Ms. CHIANG Yun and an independent non-executive Director, Mr. LONG Yongtu, did not attend the annual general meeting held on 25 May 2012. In addition, the chairman of the Board, Mr. SONG Zhenghuan, an executive Director, Mr. WANG Haiye, the non-executive Directors, Mr. Christopher Marcus GRADEL (who has since resigned with effect from 1 February 2013) and Ms. CHIANG Yun and the independent non-executive Directors, Mr. Iain Ferguson BRUCE and Mr. LONG Yongtu, did not attend the extraordinary general meeting of the Company held on 7 December 2012. Each of the above Directors will use his/her best endeavours to attend future general meetings of the Company.

The 2013 annual general meeting ("AGM") of the Company will be held on 24 May 2013. The notice of AGM will be sent to the shareholders at least 20 clear business days before the AGM.

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

During the year under review, the Company has not made any changes to its articles of association. An up-to-date version of the Company's articles of association is also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general 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 general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

There are no provisions allowing shareholders to make proposals or move resolutions at an annual general meeting under the memorandum and articles of association of the Company or the laws of the Cayman Islands. Shareholders of the Company who wish to make proposals or move a resolution may however, convene an extraordinary general meeting ("EGM") to do so by following the procedures below.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EGM (INCLUDING MAKING PROPOSAL(S)/MOVING RESOLUTION(S) AT THE EGM)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board of the Company or the company secretary of the Company (the "Company Secretary"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

- Eligible Shareholders who wish to convene an EGM for the purpose of making proposal(s) or moving resolution(s) at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for the attention of the Company Secretary.
- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.
- The Company will check the Requisition and the identity(ies) and the shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Board will be asked to convene an EGM within 2 months and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.
- The notice period to be given to all the registered shareholders for consideration of the proposal raised by the Eligible Shareholder(s) concerned at an EGM varies according to the nature of the proposal, as follows:
  - at least twenty-one (21) clear days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
  - at least fourteen (14) clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

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

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send their enquiries and concerns to the Board by addressing them to the Head of Compliance Department to the Company's principal place of business in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by post, or by email to enq_to_board@gbinternational.com.hk.

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

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


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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 2012 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 page 66. The financial position as at 31 December 2012 of the Group are set out in the Consolidated Statement of Financial Position on pages 67 to 68. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on page 70.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 32 to the Financial Statements.

FINAL DIVIDEND

At the Board meeting held on 19 March 2013, it was proposed that a final dividend of HK$0.05 per ordinary share representing a total distribution of approximately HK$50 million be paid on 7 June 2013 to the shareholders of the Company whose names appear on the Company's register of members on 30 May 2013 at 4:30 p.m.. The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 24 May 2013.

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

BOOK CLOSE PERIODS AND RECORD DATES

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

The Company's register of members will be closed from 20 May 2013 (Monday) to 24 May 2013 (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 16 May 2013 (Thursday) 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 2012, the record date and time are fixed on 30 May 2013 (Thursday) at 4:30 p.m.. 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 30 May 2013 (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 2012, the reserves of the Company available for distribution to shareholders was approximately HK$890.0 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 16 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
37.4%
– five largest customers in aggregate
57.6%

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$103,609.

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 *(resigned on 1 February 2013)*
CHIANG Yun
HO Kwok Yin, Eric *(appointed on 1 February 2013)*

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. SONG Zhenghuan, Mr. HO Kwok Yin, Eric and Mr. SHI Xiaoguang 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.

* *For identification purpose only*

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 2012.

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.

During the year of 2012, 30,551,000 share options were granted, out of which 7,000 share options were not accepted. Up to 31 December 2012, 1,348,000 share options had lapsed and no share options had been exercised. As at 31 December 2012, 29,196,000 share options were outstanding. Details of the share options granted during the year ended 31 December 2012 were as follows:

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of shares acquired on exercise of the share options during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options outstanding at the end of the period	Date of grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Employees of the subsidiaries of the Company	-	30,544,000 (note)	-	-	1,348,000	29,196,000	3 January 2012	(i) 6,146,000 share options: 3 January 2013 to 2 January 2018 (ii) 7,683,334 share options: 3 January 2015 to 2 January 2018 (iii) 7,683,333 share options: 3 January 2016 to 2 January 2018 (iv) 7,683,333 share options: 3 January 2017 to 2 January 2018	2.12	2.12

Note: Among the offer to grant 30,551,000 share options, only 30,544,000 share options had been accepted.

Save as disclosed herein, no options were granted under the Share Option Scheme or any share option scheme of the Group as at 31 December, 2012. The Company estimates the fair value of options granted using binomial tree model. The weighted average fair value of options granted during the year ended 31 December 2012, measured as at the date of grant, was approximately HK$25,856,000.

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share based compensation expense. The following assumptions were used to derive the fair values:

Dividends yield (%)	2.00
Spot stock price (HK$ per share)	2.12
Historical volatility (%)	52.00
Risk-free interest rate (%)	1.11
Expected life of option (year)	6.00
Weighted average share price (HK$ per share)	2.12

As at 31 December 2012, 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 2012, 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 Issuers, 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 2012, 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	Approximate 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%
Ms. Fu Jingqiu ("Ms. Fu") (Note 2)	Settlor/beneficiary of a trust	259,000,000 (L)	25.9%
FIL Limited	Investment manager	90,965,000 (L)	9.07%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	89,063,135(L) 7,408(S)	8.9% 0.0%
Shepherd Investments International Ltd. (Note 3)	Beneficial owner	87,373,507(L)	8.74%
Stark Brian Jay (Note 4)	Investment manager	87,373,507(L)	8.74%
Stark Offshore Management LLC (Note 4)	Investment manager	87,373,507(L)	8.74%
ARCH Media Investment Limited (Note 5)	Beneficial owner	78,722,362(L)	7.87%
ARC Capital Holdings Limited (Note 5)	Interest of controlled corporation	78,722,362(L)	7.87%
ARC Capital Partners Limited (Note 6)	Investment manager	78,722,362(L)	7.87%
Pacific Alliance Equity Partners Limited (Note 7)	Interest of controlled corporation	78,722,362(L)	7.87%

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Pacific Alliance Investment Management Limited (Note 8)	Interest of controlled corporation	78,722,362(L)	7.87%
Pacific Alliance Group Limited (Note 9)	Interest of controlled corporation	78,722,362(L)	7.87%
PAG Holdings Limited (Note 10)	Interest of controlled corporation	78,722,362(L)	7.87%
The Capital Group Companies, Inc. (Note 11)	Interest of controlled corporation	67,867,000 (L)	6.79%
Government of Singapore Investment Corporation Pte Ltd	Investment manager	50,683,000 (L)	5.07%

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 2012, 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) Shepherd Investments International Ltd. holds a 100% shareholding interest in Shepherd Performance Fund Ltd ("SPF") and SPF holds a 100% shareholding interest in Stark Arch Ltd.

(4) Stark Brian Jay holds a 75% shareholding interest in Stark Offshore Management LLC and is therefore deemed to be interested in 87,373,507 shares.

(5) ARCH Media Investment Limited ("ARCH Media") is wholly owned by ARC Capital Holdings Limited ("ARCH") and consequently ARCH is deemed to be interested in 78,722,362 shares.

(6) 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 ARCH Media and consequently ACP is deemed to be interested in 78,722,362 shares.

(7) Pacific Alliance Equity Partners Limited ("PAEP") holds a 100% shareholding interest in ACP and is therefore deemed to be interested in 78,722,362 shares.

(8) Pacific Alliance Investment Management Limited ("PAIM") holds a 52.53% shareholding interest in PAEP and is therefore deemed to be interested in 78,722,362 shares.

(9) Pacific Alliance Group Limited ("PAG") holds a 90% shareholding interest in PAIM and is therefore deemed to be interested in 78,722,362 shares.

(10) PAG Holdings Limited holds a 99.17% shareholding interest in PAG and is therefore deemed to be interested in 78,722,362 shares.

(11) The Capital Group Companies, Inc holds a 100% shareholding interest in Capital Group International, Inc. ("CGII") whereas CGII holds a 100% shareholding interest in each of Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl and consequently, each of them is deemed to be interested in 67,867,000 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 2012 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 2012 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.

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) *Lease of Properties by Goodbaby Group Pingxiang Co., Ltd.* (好孩子集團平鄉有限公司) ("GGPX") to Goodbaby Child Products Pingxiang Co., Ltd.* (好孩子兒童用品平鄉有限公司) ("GCPX")*

On 28 December 2012, GCPX and GGPX entered into a lease agreement (the "Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises (the "Properties") to GCPX for a three-year period commencing from 1 January 2013 and ending on 31 December 2015. The Properties are intended to be used mainly for production purpose. The aggregate annual rental of the Properties payable by GCPX to GGPX is determined with reference to the market rental rate. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

GCPX has an option to renew the Pingxiang Lease Agreement at any time within the three month period before the expiry date of the Pingxiang Lease Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

There were no historical transactions between GCPX and GGPX in relation to the Properties during the three years ended 31 December 2012. The annual caps under the Pingxiang Lease Agreement for each of the three years ending 31 December 2015 is RMB2,136,000 (or approximately HK$2,629,894), RMB2,350,000 (or approximately HK$2,893,376) and RMB2,585,000 (or approximately HK$3,182,714), respectively.

GGPX is a wholly-owned subsidiary of Goodbaby Group Co., Ltd.* (好孩子集團有限公司) ("GGCL"), which is a company controlled by Mr. SONG Zhenghuan, the Company's chairman, chief executive officer and executive Director, and his spouse, Ms. FU Jingqiu. Accordingly, GGPX is an associate of Mr. Song under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules.

* *For identification purpose only*

(b) *Supply of Products by Goodbaby China Commercial Co., Ltd.* (好孩子(中國)商貿有限公司) ("GCCL") to Goodbaby Child Products Co.,Ltd.* (好孩子兒童用品有限公司) ("GCPC")*

On 28 December 2012, GCPC and GCCL entered into a supply agreement (the "Supply Agreement"), pursuant to which GCCL agreed to supply infants' and children's products such as nursing products, paper products or toys (the "GCCL Products") to GCPC to be used as free gifts for sales of GCPC's products, for a period of three years commencing on 1 January 2013 to 31 December 2015. This is part of the Group's sales strategy to increase the sales volume of GCPC's own products. The amount payable by GCPC to GCCL under the Supply Agreement is determined based on the prevailing market rate of the GCCL Products. Upon receipt of the monthly invoice from GCCL, GCPC will pay such transaction amount to GCCL within seven Business Days.

GCPC has an option to renew the Supply Agreement at any time within the three month period before the expiry date of the Supply Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

There were no historical transactions between GCPC and GCCL in relation to the purchase of GCCL Products during the three years ended 31 December 2012. The annual caps under the Supply Agreement for each of the three years ending 31 December 2015 is RMB5,000,000 (or approximately HK$6,156,119), RMB6,000,000 (or approximately HK$7,387,343) and RMB7,000,000 (or approximately HK$8,618,567), respectively.

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

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 GCCL*

On 8 November, 2010, GCPC entered into an agreement (as amended by a supplemental agreement dated 16 November 2011, together, the "GCCL Supply Agreement") with GCCL for a period commencing from 24 November 2010 and ended 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. Such agreement was renewed (the "Renewed GCCL Supply Agreement") on 29 October 2012 for a further period of three years commencing on 1 January 2013 to 31 December 2015. This allows the Group to continue the use of GCCL's retail channels for the Products. The availability of such sales channels enables the Group to extend the reach of the Products as GCCL has a wide retail network in the PRC. The annual caps under the Renewed GCCL Supply Agreement is determined based on the expected increase in demand for the Products by GCCL driven by the projected expansion of GCCL's distribution network and coverage in the PRC for the three years ending 31 December 2015 and the expected rapid development of its internet shopping sales channel which was launched in 2011.

During the year under review, the Products sold to GCCL by GCPC under the GCCL Supply Agreement was amounted to RMB363,608,000 in total and the annual cap amount approved by the Directors and shareholders of the Company was RMB406,943,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions" and the circulars of the Company dated 22 November 2011 and 19 November 2012, respectively.

GCCL is an indirect wholly owned subsidiary of G-Baby Holdings Limited, which in turn is held as to approximately 63.9% by companies ultimately controlled by Mr. Song Zhenghuan, the chairman of the Company, and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCCL is an associate of Mr. Song Zhenghuan 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 POLICY

As at 31 December 2012, the Group had a total of 13,207 full-time employees (as at 31 December 2011, the Group had a total of 14,245 full-time employees). For the year ended 31 December 2012, employee costs, excluding Directors' emoluments, amounted to a total of HK$710.2 million (for the year ended 31 December 2011, employee costs, excluding directors' emoluments, amounted to a total of HK$689.4 million). 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 provides a defined contribution mandatory provident fund for retirement benefits of its employees in Hong Kong, and provides its employees in the PRC and other countries with welfare schemes as required by the applicable local laws and regulations.

The Company has also adopted a share option scheme on 5 November 2010. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

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 Main Board of The Stock Exchange of Hong Kong Limited and raised net proceeds of approximately HK$894.3 million. Reference is made to the updates on the use of proceeds in the Company's 2010 and 2011 annual reports and 2012 interim report. As at 31 December 2012, the Company has used HK$733.6 million and has not used the remaining HK$160.7 million from such proceeds in accordance with the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 11 November 2010 (the "Prospectus").

Such proceeds have been used for the following purposes as at 31 December 2012:

Use	**Approximate percentage of net proceeds**	**Approximate amount of net proceeds (in HK$ million)**	**Approximate amount utilized (in HK$ million)**	**Approximate amount remaining (in HK$ million)**
Capital expenditure to expand our production capacity at our existing stroller plants in Kunshan and Ningbo, increase our production efficiency through purchases of more advanced machines, and to construct a new staff hostel and canteen	30%	268.3	208.3	60.0
Research and development and commercialization of products, including new children's car safety seat products and other new products	20%	178.8	78.1	100.7
Improvement of our general market research, product development and design capability in Kunshan and our overseas research centers	15%	134.1	134.1	—
Expansion and enhancement of our distribution network in China and our overseas markets	15%	134.1	134.1	—
Marketing and promotion of our brands	10%	89.5	89.5	—
Working capital and other general corporate purposes	10%	89.5	89.5	—
Total	100%	894.3	733.6	160.7

The balance of the unutilized proceeds of approximately HK$160.7 million, deposited in normal interest bearing saving accounts which are short-term demand deposits, 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 RE-PURCHASE OF SHARES

There was no purchase, sale and re-purchase of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2012.

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 41 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 150 to 151 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 2012.

AUDITORS

The financial statements of the Company for the year ended 31 December 2012 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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

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

19 March 2013

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 66 to 149, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	**2012 (HK$'000)**	2011 (HK$'000)
Revenue	6	**4,554,462**	3,941,672
Cost of sales		**(3,682,571)**	(3,267,990)
Gross profit		**871,891**	673,682
Other income and gains	6	**54,030**	106,109
Selling and distribution expenses		**(359,350)**	(271,309)
Administrative expenses		**(343,301)**	(301,080)
Other expenses		**(3,381)**	(5,729)
Operating profit		**219,889**	201,673
Finance income	7	**7,911**	3,749
Finance costs	8	**(11,897)**	(11,617)
Profit before tax	9	**215,903**	193,805
Income tax expense	12	**(32,780)**	(16,117)
Profit for the year		**183,123**	177,688
Other comprehensive income			
Exchange differences on translation		**1,806**	38,883
Total comprehensive income for the year, net of tax		**184,929**	216,571
Profit for the year attributable to:			
Owners of the parent		**181,207**	176,915
Non-controlling interests		**1,916**	773
		183,123	177,688
Total comprehensive income attributable to:			
Owners of the parent		**183,009**	214,503
Non-controlling interests		**1,920**	2,068
		184,929	216,571
Earnings per share attributable to ordinary equity holders of the parent:	15		
Basic and diluted			
– For profit for the year (HK$)		**0.18**	0.18

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 (HK$'000)	2011 (HK$'000)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**675,954**	640,087
Prepaid land lease payments	17	**68,022**	70,595
Intangible assets	18	**35,352**	38,082
Deferred tax assets	29	**14,633**	15,153
Total non-current assets		**793,961**	763,917
CURRENT ASSETS			
Inventories	20	**624,856**	676,767
Trade and notes receivables	21	**758,728**	642,427
Prepayments and other receivables	22	**123,970**	166,296
Due from related parties	37	**133,487**	119,529
Available-for-sale investments	23	**123,335**	—
Cash and cash equivalents	24	**633,371**	788,356
Derivative financial instruments	19	**—**	13,947
Total current assets		**2,397,747**	2,407,322
CURRENT LIABILITIES			
Trade and notes payables	25	**791,268**	857,302
Other payables, advances from customers and accruals	26	**289,827**	236,731
Interest-bearing bank borrowings	28	**220,783**	326,498
Income tax payable		**7,400**	9,649
Provision	27	**11,722**	12,938
Dividends payable		**1**	1
Total current liabilities		**1,321,001**	1,443,119
NET CURRENT ASSETS		**1,076,746**	964,203
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,870,707**	1,728,120

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012 (HK$'000)**	2011 (HK$'000)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	**18,578**	20,672
Total non-current liabilities		**18,578**	20,672
Net assets		**1,852,129**	1,707,448
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**10,000**	10,000
Reserves	34(a)	**1,762,363**	1,619,602
Proposed final dividend	14	**50,000**	50,000
		1,822,363	1,679,602
Non-controlling interests		**29,766**	27,846
Total equity		**1,852,129**	1,707,448

SONG Zhenghuan
Director

WANG Haiye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the parent										
	Share capital (HK$'000) (note 32)	**Share premium** (HK$'000)	**Share option reserve** (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 14)	**Total** (HK$'000)	**Non-controlling interests** (HK$'000)	**Total equity** (HK$'000)
As at 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 (note 14)	—	—	—	—	—	—	(50,000)	50,000	—	—	—
Profit appropriation	—	—	—	1,834	—	—	(1,834)	—	—	—	—
2010 dividends declared	—	—	—	—	—	—	-	(50,000)	(50,000)	—	(50,000)
As at 31 December 2011 and 1 January 2012	**10,000**	**916,913***	—	**107,402***	**177,437***	**153,975***	**263,875***	**50,000**	**1,679,602**	**27,846**	**1,707,448**
Profit for the year	—	—	—	—	—	—	**181,207**	—	**181,207**	**1,916**	**183,123**
Exchange differences on translation	—	—	—	—	**1,802**	—	—	—	**1,802**	**4**	**1,806**
Total comprehensive income for the year	—	—	—	—	**1,802**	—	**181,207**	—	**180,009**	**1,920**	**184,929**
Proposed final 2012 dividend (note 14)	—	**(26,869)**	—	—	—	—	**(23,131)**	**50,000**	—	—	—
Profit appropriation	—	—	—	**14,294**	—	—	**(14,294)**	—	—	—	—
2011 dividends declared (note 14)	—	—	—	—	—	—	—	**(50,000)**	**(50,000)**	—	**(50,000)**
Equity-settled share option arrangements	—	—	**9,752**	—	—	—	—	—	**9,752**	—	**9,752**
As at 31 December 2012	**10,000**	**890,044***	**9,752***	**121,696***	**179,239***	**153,975***	**407,657***	**50,000**	**1,822,363**	**29,766**	**1,852,129**

* *These reserve accounts comprise the consolidated reserves of HK$1,762,363,000 (2011: HK$1,619,602,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	**2012**	2011
		(HK$'000)	(HK$'000)
Cash flows from operating activities:			
Profit before tax		**215,903**	193,805
Depreciation and amortisation		**99,946**	79,479
Loss on disposal of items of property, plant and equipment		**138**	1,732
Fair value gains on derivative instruments – transactions not qualifying as hedges		—	(13,947)
Write-down of inventories		**41**	1,032
Provision for impairment of receivables		**1**	245
Interest expense		**11,897**	11,617
Interest income		**(7,911)**	(3,749)
Decrease/(increase) in inventories		**51,870**	(106,490)
Increase in trade and notes receivables		**(104,501)**	(122,837)
Decrease in prepayments and other receivables		**42,326**	11,947
Decrease in derivative financial instruments		**13,947**	—
Increase in amounts due from related parties		**(13,958)**	(42,584)
Decrease in amounts due to related parties		—	(649)
(Decrease)/increase in trade and notes payables		**(66,034)**	172,122
Increase/(decrease) in other payables, advances from customers and accruals		**54,710**	(14,054)
Decrease in provision		**(1,216)**	(10,984)
Income tax paid		**(36,603)**	(18,161)
Net cash flows generated from operating activities		**260,556**	138,524
Cash flows from investing activities:			
Proceeds from disposal of items of property, plant and equipment		**504**	4,137
Interest received		**7,911**	3,749
Purchase of items of property, plant and equipment		**(130,055)**	(151,996)
Purchase of intangible assets		**(3,056)**	(9,676)
Purchase of available-for-sale financial investments		**(123,335)**	—
Net cash flows used in investing activities		**(248,031)**	(153,786)
Cash flows from financing activities:			
Proceeds from borrowings		**544,371**	863,153
Repayment of borrowings		**(649,984)**	(1,022,641)
Interest paid		**(11,897)**	(11,617)
Dividends paid		**(50,000)**	(49,999)
Net cash flows used in financing activities		**(167,510)**	(221,104)
Net decrease in cash and cash equivalents		**(154,985)**	(236,366)
Cash and cash equivalents at 1 January		**788,356**	1,024,722
Cash and cash equivalents at 31 December	24	**633,371**	788,356

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012 (HK$'000)**	2011 (HK$'000)
NON-CURRENT ASSETS			
Investments in subsidiaries	30	**8,805**	8,805
Investment in a jointly-controlled entity	31	**1,562**	1,562
Total non-current assets		**10,367**	10,367
CURRENT ASSETS			
Other receivables	22	**63**	174
Due from subsidiaries		**964,511**	459,928
Cash and cash equivalents	24	**819**	554,937
Total current assets		**965,393**	1,015,039
CURRENT LIABILITIES			
Other payables	26	**15,690**	15,911
Due to a subsidiary		**274**	274
Total current liabilities		**15,964**	16,185
NET CURRENT ASSETS		**949,429**	998,854
TOTAL ASSETS LESS CURRENT LIABILITIES		**959,796**	1,009,221
Net assets		**959,796**	1,009,221
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**10,000**	10,000
Reserves	34(b)	**899,796**	949,221
Proposed final dividend	14	**50,000**	50,000
Total equity		**959,796**	1,009,221

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, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2010.

The Group is principally engaged in the manufacture 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 statements of the Group since 1 January 2009. Details of the Reorganisation are set out in the Prospectus of the Company dated 24 November 2010.

2. BASIS OF PREPARATION (Continued)

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.

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 2012. 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 is attributed to the non-controlling interest even if it 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 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendments have no impact on the Company's financial position or performance. The amendments become effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

IAS 19 Employee Benefits - Amendments to IAS 19

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 amendments have no impact on the Company's financial position or performance. The amendments become effective for annual periods beginning on or after 1 January 2013.

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

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates 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 revised standard has no impact on the Company's financial position or performance and it becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRSs. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendments are effective for annual periods on or after 1 January 2013 and have no impact on the Company.

IFRS 7 – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 the final standard including all phases is issued.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate 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 addresses 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.

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 Interests in 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, but has no impact on the Company's financial position or performance. 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 IFRSs 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 IFRSs when fair value is required or permitted. 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)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Company.

Amendments to IFRS 10, IFRS 11 and IFRS 12 - Transition Guidance

Effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27(Revised) - Investment Entities

Effective for annual periods beginning on or after 1 January 2014

Annual Improvements 2009-2011 Cycle (issued in May 2012)

These improvements will not have an impact on the Company, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRSs in the past and chooses, or is required, to apply IFRSs, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRSs.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are 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.

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 a 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

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

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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); 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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 earnings 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 including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Operating 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 of the Group are classified as financial assets at fair value through profit or lass, 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.

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of comprehensive income. 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 them. 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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

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.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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 other income and gains 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Derecognition of financial assets (Continued)

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

Impairment of financial assets

The Group 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 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 profit or loss. 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 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, net of 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 profit or loss. The net fair value gain or loss recognised in profit or loss 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 in 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of 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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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 profit or loss.

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 reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of 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 reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss 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 profit or loss by way of a reduced depreciation charge.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants (Continued)

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 profit or loss 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 profit or loss 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 over 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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 3 January 2012 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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.

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 profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 prevailing 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 recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in 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 other comprehensive income.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries and a jointly-controlled entity are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into HK$ 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 profit or loss.

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.

4. SIGNIFICANT ACCOUNTING, 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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 2012 was approximately HK$15,907,000 (2011: HK$15,909,000). Further details are given in note 18.

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.

4. SIGNIFICANT ACCOUNTING, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty (Continued)

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 trade and 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 21.

Write-down of inventories

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

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, manufacture and sale 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, manufacture and sale of car seats and accessories, cribs and accessories and other children's products under the Group's own brands and third parties' brands;

5. OPERATING SEGMENT INFORMATION (Continued)

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

(d) Domestic – Other durable juvenile products segment, which engages in the sourcing and distribution 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.

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 2012

	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	1,485,812	1,765,577	3,251,389	584,823	718,250	1,303,073	4,554,462
Intersegment sales	164,207	435,858	600,065	—	—	—	600,065
			3,851,454			1,303,073	5,154,527
Reconciliation:							
Elimination of intersegment sales							(600,065)
Revenue							4,554,462
Cost of sales							(3,682,571)
Other income and gains							54,030
Operating costs							(702,651)
Other expenses							(3,381)
Finance costs – net							(3,986)
Profit before tax							215,903

5. OPERATING SEGMENT INFORMATION (Continued)

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							3,941,672
Cost of sales							(3,267,990)
Other income and gains							106,109
Operating costs							(572,389)
Other expenses							(5,729)
Finance costs – net							(7,868)
Profit before tax							193,805

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 2012					
Segment revenue:					
Sales to external customers	**1,271,032**	**1,330,118**	**1,303,073**	**650,239**	**4,554,462**
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

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

(b) Non-current assets

Since all non-current assets, other than deferred tax assets, 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 the total net sales of the Group are as follows:

	2012 (HK$'000)	2011 (HK$'000)
Revenue	**1,704,538**	1,587,018

The above sales to a customer were 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 is as follows:

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Revenue:		
Sales of goods	**4,554,462**	3,941,672
Other income and gains:		
Net foreign exchange gain	—	52,856
Government grants (note (a))	**29,770**	21,507
Gain on sales of materials	**13,666**	8,031
Gain on wealth investment products (note (b))	**3,076**	—
Compensation income (note (c))	**2,101**	3,261
Service fee income (note (d))	**2,431**	2,649
Fair value gains on derivative financial instruments	—	13,947
Others	**2,986**	3,858
Total	**54,030**	106,109

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 the gain achieved from wealth investment products.*

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

Note (d): *The amount represents the service fee income for information technology services and factory administrative services provided to third parties.*

7. FINANCE INCOME

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Interest income on bank deposits	**7,911**	3,749

8. FINANCE COSTS

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Interest expense on bank loans and borrowings	**11,897**	11,617

9. PROFIT BEFORE TAX

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

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Cost of inventories recognised as expenses	**3,902,763**	3,477,403
Cost of services provided	**3,728**	3,606
Depreciation of items of property, plant and equipment	**93,232**	73,194
Amortisation of intangible assets	**4,158**	3,492
Amortisation of land lease payments	**2,556**	2,793
Research and development costs ("R&D")	**116,090**	118,479
Lease payments under operating leases in respect of properties	**45,832**	37,882
Auditors' remuneration	**4,792**	4,247
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**699,456**	678,397
Pension scheme contributions	**22,927**	22,978
	722,383	701,375
Share option expense	**9,752**	—
Net foreign exchange losses/(gains)	**1,565**	(52,856)
Provision for impairment of receivables	**1**	245
Write-down of inventories	**41**	1,032
Product warranties	**16,827**	1,864
Fair value gains on derivative financial instruments	—	(13,947)
Loss on disposal of items of property, plant and equipment	**138**	1,732
Bank interest income	**(7,911)**	(3,749)

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:

	2012 (HK$'000)	2011 (HK$'000)
Fees	**737**	741
Other emoluments:		
Salaries, allowances and benefits in kind	**11,482**	11,221
Performance-related bonuses	—	—
Pension scheme contributions	**11**	11
	11,493	11,232
	12,230	11,973

(a) Independent non-executive directors

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

	2012 (HK$'000)	2011 (HK$'000)
LONG Yongtu	—	—
BRUCE, Iain Ferguson	**233**	234
SHI Xiaoguang	**194**	195
	427	429

There were no other emoluments payable to the independent non-executive directors in 2012 (2011: 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)
2012					
Executive directors:					
SONG Zhenghuan	—	7,417	—	—	7,417
WANG Haiye	—	4,065	—	11	4,076
	—	11,482	—	11	11,493
Non-executive directors:					
GRADEL, Christopher Marcus	155	—	—	—	155
CHIANG Yun	155	—	—	—	155
	310	—	—	—	310

	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

There was no arrangement under which a director waived or agreed to waive any remuneration in 2012 (2011: nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2011: two), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2011: three) non-director, highest paid employees for the year are as follows:

	2012 (HK$'000)	2011 (HK$'000)
Salaries, allowances and benefits in kind	**10,098**	9,318
Performance-related bonuses	—	2,724
Pension scheme contributions	**225**	73
	10,323	12,115

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

	Number of employees 2012	2011
HK$2,000,001 to 3,000,000	**1**	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
	3	3

During the year, no directors, nor any of the non-director, highest paid employees waived or agreed to waive any remuneration (2011: none). None of the directors, or any of the non-director, 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 (2011: 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 rates range 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.

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 (the "PRC"), which only have operations in Mainland China, are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. On 16 March 2007, the PRC government promulgated the 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 are as follows:

	Group	
	2012	2011
	(HK$'000)	(HK$'000)
Current income tax - PRC		
– Income tax for the year	**23,955**	3,516
– Under/(over) provision in prior years (note (a))	**54**	(12,330)
	24,009	(8,814)
United States state and federal income tax	**1,512**	2,013
Japan income tax	**33**	—
Netherlands income tax	**84**	59
Hong Kong profits tax	**8,713**	9,681
Deferred income tax (note 29)	**(1,571)**	13,178
Income tax expense reported in the statement of comprehensive income	**32,780**	16,117

Note (a): As previously disclosed 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 RMB100,000,000. This resulted in a credit of RMB10,000,000 (equal to approximately HK$12,335,000) of over-provided withholding income tax in 2011'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	
	2012 (HK$'000)	2011 (HK$'000)
Profit before tax	**215,903**	193,805
Expected income tax on profit before tax, calculated at the applicable tax rate of 25%	**53,976**	48,452
Lower tax rate for specific provision	**(14,456)**	(15,233)
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	**(8,744)**	(9,771)
Under/(over) provision in prior years	**54**	(12,330)
Non-taxable income	**(19)**	(5,152)
Non-deductible expenses	**1,969**	538
Deferred tax liability on withholding tax (note (a))	**—**	9,613
Income tax expense	**32,780**	16,117

Note (a): Pursuant to the Board resolutions of GCPC, Paragon Child Product Co.,Ltd ("PCPC") and Ningbo Goodbaby Child Products Co., Ltd. ("GCPN") dated 13 March 2013, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid companies in 2012 will not be appropriated to GBHK in 2012 and onwards. Hence, deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2012.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$9,177,000 (2011: profit of HK$14,349,000) which has been dealt with in the financial statements of the Company (note 34(b)).

14. DIVIDENDS

	2012 (HK$'000)	2011 (HK$'000)
Final dividend proposed subsequent to the reporting period – HK5 cents per ordinary share (2011: HK5 cents)	**50,000**	50,000
Net	**50,000**	50,000

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.

15. 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 (2011: 1,000,000,000).

The calculation of basic earnings per share is based on:

	2012 (HK$'000)	2011 (HK$'000)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**181,207**	176,915

	2012 ('000)	2011 ('000)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,000,000**	1,000,000

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

16. 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$'000)	Construction in progress (HK$'000)	Total (HK$'000)
31 December 2012							
At 31 December 2011 and at 1 January 2012:							
Cost	441,854	554,197	9,334	93,087	48,461	15,894	1,162,827
Accumulated depreciation	(154,428)	(292,536)	(3,411)	(33,390)	(38,975)	—	(522,740)
Net carrying amount	287,426	261,661	5,923	59,697	9,486	15,894	640,087
At 1 January 2012, net of accumulated depreciation	287,426	261,661	5,923	59,697	9,486	15,894	640,087
Additions	12,152	48,724	1,085	46,052	1,948	20,094	130,055
Disposals	—	(465)	—	(177)	—	—	(642)
Depreciation provided during the period	(20,037)	(42,636)	(1,284)	(21,464)	(7,811)	—	(93,232)
Transfers	17,199	9,502	—	—	3,019	(29,720)	—
Translation adjustments	(3)	(153)	(1)	(231)	109	(35)	(314)
At 31 December 2012, net of accumulated depreciation	296,737	276,633	5,723	83,877	6,751	6,233	675,954
At 31 December 2012:							
Cost	471,252	611,361	10,422	137,588	45,068	6,233	1,281,924
Accumulated depreciation	(174,515)	(334,728)	(4,699)	(53,711)	(38,317)	—	(605,970)
Net carrying amount	296,737	276,633	5,723	83,877	6,751	6,233	675,954

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Buildings (HK$'000)	Plant and machinery (HK$'000)	Motor vehicles (HK$'000)	Furniture and fixtures (HK$'000)	Leasehold improvements (HK$'000)	Construction in progress (HK$'000)	Total (HK$'000)
31 December 2011							
At 31 December 2010 and at 1 January 2011:							
Cost	398,359	480,070	5,897	39,879	43,774	7,529	975,508
Accumulated depreciation	(132,430)	(251,902)	(2,432)	(20,812)	(29,441)	—	(437,017)
Net carrying amount	265,929	228,168	3,465	19,067	14,333	7,529	538,491
At 1 January 2011, net of accumulated depreciation	265,929	228,168	3,465	19,067	14,333	7,529	538,491
Additions	8,047	49,780	3,406	53,035	2,590	35,138	151,996
Disposals	—	(5,025)	(30)	(814)	—	—	(5,869)
Depreciation provided during the period	(15,111)	(35,149)	(1,117)	(13,428)	(8,389)	—	(73,194)
Transfers	15,201	12,111	—	—	—	(27,312)	—
Translation adjustments	13,360	11,776	199	1,837	952	539	28,663
At 31 December 2011, net of accumulated depreciation	287,426	261,661	5,923	59,697	9,486	15,894	640,087
At 31 December 2011:							
Cost	441,854	554,197	9,334	93,087	48,461	15,894	1,162,827
Accumulated depreciation	(154,428)	(292,536)	(3,411)	(33,390)	(38,975)	—	(522,740)
Net carrying amount	287,426	261,661	5,923	59,697	9,486	15,894	640,087

17. PREPAID LAND LEASE PAYMENTS

Group

	2012 (HK$'000)	2011 (HK$'000)
At beginning of year	**70,595**	67,118
Additions	—	2,985
Amortisation	**(2,556)**	(2,793)
Translation adjustments	**(17)**	3,285
At end of year	**68,022**	70,595

18. INTANGIBLE ASSETS

Group

	Goodwill (HK$'000)	**Trademarks** (HK$'000)	**Computer software** (HK$'000)	**Total** (HK$'000)
31 December 2012				
At 31 December 2011 and at 1 January 2012:				
Cost	15,909	29,443	11,211	56,563
Accumulated amortisation	—	(15,748)	(2,733)	(18,481)
Net carrying amount	15,909	13,695	8,478	38,082
At 1 January 2012, net of accumulated amortisation	15,909	13,695	8,478	38,082
Additions		420	2,636	3,056
Disposals	—	—	(1,614)	(1,614)
Amortisation provided during the period	—	(2,737)	(1,421)	(4,158)
Translation adjustments	(2)	(10)	(2)	(14)
At 31 December 2012, net of accumulated depreciation	15,907	11,368	8,077	35,352
At 31 December 2012:				
Cost	15,907	29,861	12,228	57,996
Accumulated amortisation	—	(18,493)	(4,151)	(22,644)
Net carrying amount	15,907	11,368	8,077	35,352

18. INTANGIBLE ASSETS (Continued)

Group (Continued)

	Goodwill (HK$'000)	Trademarks (HK$'000)	Computer software (HK$'000)	Total (HK$'000)
31 December 2011				
At 31 December 2010 and at 1 January 2011:				
Cost	15,684	25,768	3,596	45,048
Accumulated amortisation	—	(12,571)	(1,641)	(14,212)
Net carrying amount	15,684	13,197	1,955	30,836
At 1 January 2011, net of accumulated amortisation	15,684	13,197	1,955	30,836
Additions	—	2,348	7,328	9,676
Disposals				
Amortisation provided during the period	—	(2,500)	(992)	(3,492)
Translation adjustments	225	650	187	1,062
At 31 December 2011, net of accumulated depreciation	15,909	13,695	8,478	38,082
At 31 December 2011:				
Cost	15,909	29,443	11,211	56,563
Accumulated amortisation	—	(15,748)	(2,733)	(18,481)
Net carrying amount	15,909	13,695	8,478	38,082

18. INTANGIBLE ASSETS (Continued)

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

	2012 (HK$'000)	2011 (HK$'000)
Manufacture and export of stroller-related products	**15,907**	15,909

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 rate applied to the cash flow projections as at 31 December 2012 was 14% (2011: 14%). No growth has been projected beyond the five-year period.

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 assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Forward currency contracts - assets	—	13,947

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 approximate to their fair values. 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.

20. INVENTORIES

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Raw materials	**219,782**	251,186
Work in progress	**106,550**	79,138
Finished goods	**298,524**	346,443
	624,856	676,767

21. TRADE AND NOTES RECEIVABLES

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Trade receivables	**750,670**	616,135
Notes receivable	**8,510**	26,780
	759,180	642,915
Impairment of the trade receivables	**(452)**	(488)
	758,728	642,427

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	
	2012 (HK$'000)	2011 (HK$'000)
Within 3 months	**730,377**	607,354
3 to 6 months	**17,355**	7,070
6 months to 1 year	**2,399**	1,202
Over 1 year	**87**	21
	750,218	615,647

21. TRADE AND NOTES RECEIVABLES (Continued)

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

	Group	
	2012 (HK$'000)	2011 (HK$'000)
At beginning of year	**488**	429
Recognition of impairment for the year	**1**	245
Amounts written off	**(37)**	(186)
At end of year	**452**	488

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

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Neither past due nor impaired	**684,505**	577,591
Less than 1 month past due	**45,966**	32,081
1 to 2 months past due	**13,389**	4,352
2 to 3 months past due	**3,739**	1,115
Over 3 months and within 1 year past due	**2,619**	508
At end of year	**750,218**	615,647

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.

22. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2012 (HK$'000)	2011 (HK$'000)	**2012 (HK$'000)**	2011 (HK$'000)
Prepayments	**94,858**	141,007	**56**	—
Other receivables	**29,112**	25,289	**7**	174
	123,970	166,296	**63**	174

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.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Unlisted investments, at fair value	**123,335**	—

The above investments consist of investments in wealth investment products which were designated as available-for-sale financial assets and have maturity within one month and coupon rate ranging from 3% to 4.5% per annum.

The welfare investment products all matured in January 2013 with principals and interests fully received.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 (HK$'000)	2011 (HK$'000)	**2012 (HK$'000)**	2011 (HK$'000)
Cash and bank balances	**633,371**	788,356	**819**	554,937
Denominated in RMB	**525,801**	727,443	**—**	554,223
Denominated in HK$	**1,332**	743	**642**	105
Denominated in other currencies	**106,238**	60,170	**177**	609
Cash and bank balances	**633,371**	788,356	**819**	554,937

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	
	2012 (HK$'000)	2011 (HK$'000)
Within 3 months	**690,291**	719,854
3 to 12 months	**90,635**	130,188
1 to 2 years	**5,352**	4,277
2 to 3 years	**3,654**	1,930
Over 3 years	**1,336**	1,053
	791,268	857,302

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	
	2012 (HK$'000)	2011 (HK$'000)	**2012 (HK$'000)**	2011 (HK$'000)
Other payables	**61,327**	49,102	**15,688**	15,688
Advances from customers	**73,055**	62,513	**—**	—
Accruals	**155,445**	125,116	**2**	223
	289,827	236,731	**15,690**	15,911

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 2011	23,922
Additional provision	1,864
Amounts utilised	(13,844)
Translation adjustments	996
Balance at 31 December 2011 and 1 January 2012	12,938
Additional provision	16,827
Amounts utilised	(18,042)
Translation adjustments	(1)
Balance at 31 December 2012	11,722

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					
	2012			2011		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Unsecured bank loans	—	—	—	3.66-6.26	2012	86,725
Bank borrowings pledged by intra-group trade receivables	**0.81-1.32**	**2013**	**220,783**	3.90-4.60	2012	239,773
Total			**220,783**			326,498

All short term bank borrowings were obtained from third party financial institutions. As at 31 December 2012, a subsidiary had pledged trade receivables of approximately HK$246,242,000 (2011: HK$256,835,000) to secure certain of the Group's bank loans and these trade receivables had been eliminated at the group level.

	Group	
	2012 (HK$'000)	2011 (HK$'000)
Analysed into:		
Bank loans repayable:		
Within one year	**220,783**	326,498
	220,783	326,498

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

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$'000)	Losses available for offsetting agains futuret taxable profits (HK$'000)	Total (HK$'000)
As at 1 January 2011	91	3,031	4,239	433	8,118	—	15,912
Credited/(charged) to profit or loss (note 12)	5	207	(2,111)	(445)	168	659	(1,517)
Translation adjustments	5	156	165	12	406	14	758
As at 31 December 2011 and 1 January 2012	101	3,394	2,293	—	8,692	673	15,153
(Charged)/credited to profit or loss (note 12)	(5)	(24)	(277)	—	462	(670)	(514)
Translation adjustments	—	(1)	(1)	—	(1)	(3)	(6)
As at 31 December 2012	96	3,369	2,015	—	9,153	—	14,633

The Group has no tax losses arising in Mainland China (2011: HK$2,635,000).

29. DEFERRED TAX (Continued)

Deferred tax liabilities - Group:

	Withholding tax on undistributed profits of the PRC subsidiaries (HK$'000)	Derivative financial instruments (HK$'000)	Total (HK$'000)
At 1 January 2011	8,349	—	8,349
Charged to profit or loss (note 12)	9,613	2,049	11,662
Translation adjustments	618	43	661
At 31 December 2011 and 1 January 2012	18,580	2,092	20,672
Credited to profit or loss (note 12) (note (a))	—	(2,085)	(2,085)
Translation adjustments	(2)	(7)	(9)
At 31 December 2012	18,578	—	18,578

Note (a): *Pursuant to the Board resolutions of GCPC, PCPC and GCPN dated 13 March 2013, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid companies in 2012 will not be appropriated to GBHK in 2012 and onwards. Hence, deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2012.*

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	
	2012	2011
	(HK$'000)	(HK$'000)
Deferred tax assets arising from:		
– Provision for impairment of receivables	**96**	101
– Write-down of inventories	**3,369**	3,394
– Provision	**2,015**	2,293
– Accruals	**9,153**	8,692
– Losses available for offsetting against future taxable income	—	673
	14,633	15,153
Deferred tax liabilities arising from:		
– Withholding tax on undistributed earnings of the PRC subsidiaries	**(18,578)**	(18,580)
– Derivative financial instruments	—	(2,092)
	(18,578)	(20,672)
Deferred tax assets, net	**(3,945)**	(5,519)
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	**14,633**	15,153
– Deferred tax liabilities	**(18,578)**	(20,672)

At 31 December 2012, 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$485,700,000 at 31 December 2012 (2011: HK$329,770,000).

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

30. INVESTMENTS IN SUBSIDIARIES - COMPANY

	2012 (HK$'000)	2011 (HK$'000)
Unlisted equity investments, at cost	**8,805**	8,805
Less: Impairment of investments	—	—
	8,805	8,805

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/ registered paid-up capital	Principal activities
		Direct	Indirect		
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
GCPC	PRC 18 November 1994	—	100%	US$52,000,000	Manufacture, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
GCPN	PRC 9 September 1996	—	85%	RMB10,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
PCPC	PRC 5 November 2008	—	100%	RMB10,000,000	Manufacture, distribution and sale of dining chairs, cribs and tricycles for children
Pingxiang Goodbaby Child Products Co., Ltd ("GCPX")	PRC 26 December 2011	—	100%	RMB2,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs

30. INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/ registered paid-up capital	Principal activities
		Direct	Indirect		
Goodbaby Japan Co., Ltd. ("GBJP")	Japan 5 February 2008	—	100%	JPY3,000,000	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
Jiangsu EQO Testing Services Co., Ltd ("EQTC")	PRC 30 November 2012	—	100%	RMB5,000,000	Testing of children's products, tools, electronic products and advisory for risk valuation of products quality

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

(ii) GCPN is a Sino-foreign equity joint venture established in the PRC.

(iii) GCPX and EQTC are domestic companies established in the PRC.

31. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY - COMPANY

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 pursuant to the joint venture contract, and the Group can only appoint half of the board members of GCTP.

31. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY - COMPANY (Continued)

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

	2012 (HK$'000)	2011 (HK$'000)
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**1,984**	1,048
Non-current assets	**1**	1
Current liabilities	**(58)**	(36)
Net assets	**1,927**	1,013
Share of the jointly-controlled entity's results:		
Revenue	—	—
Cost of sales	—	—
	—	—
Total operating expenses	**(59)**	(52)
Tax	—	—
Loss after tax	**(59)**	(52)

32. SHARE CAPITAL

	The Group and the Company			
	Number of shares		Amount	
	2012 ('000)	2011 ('000)	**2012 (HK$'000)**	2011 (HK$'000)
Authorised:				
Ordinary shares of HK$0.01 each (note (ii))	**50,000,000**	50,000,000	**500,000**	500,000

32. SHARE CAPITAL (Continued)

	Number of shares in issue ('000)	Issued capital (HK$'000)
Issued and fully paid:		
At 1 January 2011 and 2012	1,000,000	10,000
At 31 December 2011 and 2012	1,000,000	10,000

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Eligible participants of the Scheme include full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including non-executive and independent non-executivedirectors) 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 Scheme. The Scheme has become effective on 5 November 2010 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 5 November 2010. The maximum number of shares issuable under share options to each eligible participant under the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue as at the date on which the share options are granted to the relevant eligible participants. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue on the date of such grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

33. SHARE OPTION SCHEME (Continued)

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined by the directors and ends on a date which shall not be later than ten years from the date upon which the share options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the date of offer of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme as at 31 December 2012:

	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January 2012	—	—
Granted during the period	2,120	30,544
Forfeited during the period	2.120	(1,348)
At 31 December 2012	2.120	29,196

No share options were vested or exercised as at 31 December 2012 (2011: Nil). The exercise prices and exercise periods of the share options outstanding as at 31 December 2012 are as follows:

Number of options '000	**Exercise price HK$ per share**	**Exercise period**
6,146	2.120	3 January 2013 to 2 January 2018
7,684	2.120	3 January 2015 to 2 January 2018
7,683	2.120	3 January 2016 to 2 January 2018
7,683	2.120	3 January 2017 to 2 January 2018
29,196		

The Group recognised a share option expense of HK$9,752,000 (2011:Nil) as at 31 December 2012.

33. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Share options granted on 3 January 2012
Dividend yield (%)	2.00
Spot stock price (HK$ per share)	2.12
Historical volatility (%)	52.00
Risk-free interest rate (%)	1.11
Expected life of options (year)	6.00
Weighted average share price (HK$ per share)	2.12

At the end of the reporting period, the Company had 29,196,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 29,196,000 additional ordinary shares of the Company and additional share capital of HK$291,960 and share premium of HK$61,603,560 (before issue expenses).

At the date of approval of these financial statements, the Company had 29,196,000 share options outstanding under the Scheme, which represented approximately 2.92% of the Company's shares in issue as at that date.

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 foreign invested companies. 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 2012, the merger reserve represents:

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

34. RESERVES (Continued)

(b) COMPANY

	Share premium (HK$'000)	Share option reserve (HK$'000)	Retained earnings (HK$'000)	Total (HK$'000)
As at 1 January 2011	916,913	—	67,959	984,872
Profit for the year	—	—	14,349	14,349
Proposed final 2011 dividend (note 14)	—	—	(50,000)	(50,000)
As at 31 December 2011 and 1 January 2012	916,913	—	32,308	949,221
Loss for the year	—	—	(9,177)	(9,177)
Equity-settled share option arrangements	—	9,752	—	9,752
Proposed final 2012 dividend (note 14)	(26,869)	—	(23,131)	(50,000)
As at 31 December 2012	890,044	9,752	—	899,796

35. OPERATING LEASE ARRANGEMENTS

Group as lessee

	2012 (HK$'000)	2011 (HK$'000)
Within one year	**30,315**	41,027
After one year but not more than five years	**71,293**	65,673
More than five years	**16,000**	26,455
	117,608	133,155

36. COMMITMENTS

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

	Group	
	2012 **(HK$'000)**	2011 (HK$'000)
Contracted, but not provided for in respect of acquisition of:		
Property, plant and equipment	**1,322**	5,243

37. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
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
GCCL	Controlled by GBHL
CRF Enterprise ("CRF")	One of the Company's shareholders
Majestic Sino Ltd. ("MJSL")	Controlled by CRF
SGCP	Controlled by MJSL

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:

	2012 (HK$'000)	2011 (HK$'000)
Sales of goods to related parties (note (a))		
GCCL#	**446,912**	374,384
Rental expense to a related party (note (b))		
GGCL#	**861**	846
Expenses paid on behalf of related parties (note (c))		
GCCL#	**912**	612
SGCP#	**116**	113
	1,028	725
Expenses paid by a related party (note (c))		
BRKH#	**315**	313

Note (a): The sales of goods to the related parties were made according to the prices and terms agreed between the related parties.

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

Note (c): Expenses and procurement paid on behalf of/by the 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) Outstanding balances with related parties

GROUP

	2012 (HK$'000)	2011 (HK$'000)
Amount due from a related party		
GCCL	**133,487**	119,529

The amount due from a related party and balances with subsidiaries are unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel of the Group

	2012 (HK$'000)	2011 (HK$'000)
Short term employee benefits	**26,344**	25,624
Equity-settled share option expense	**595**	—
Post-employment benefits	**421**	167
Total compensation paid to key management personnel	**26,360**	25,791

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 2012	**Financial assets at fair value through profit or loss (HK$'000)**	**Loans and receivables (HK$'000)**	**Total (HK$'000)**
Trade and notes receivables	—	**758,728**	**758,728**
Financial assets included in prepayments and other receivables (note 22)	—	**29,112**	**29,112**
Due from related parties	—	**133,487**	**133,487**
Available-for-sale investments	**123,335**	—	**123,335**
Cash and cash equivalents	—	**633,371**	**633,371**
	123,335	**1,544,698**	**1,678,033**

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 22)	—	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

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

GROUP (Continued)

Financial liabilities

As at 31 December 2012	Financial liabilities at amortised cost (HK$'000)
Financial liabilities included in other payables, advances from customers and accruals (note 26)	**61,327**
Trade and notes payables	**791,268**
Interest-bearing bank borrowings	**220,783**
	1,073,378

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

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

COMPANY

Financial assets

As at 31 December 2012	**Loans and receivables (HK$'000)**
Financial assets included in prepayments and other receivables (note 22)	**7**
Due from subsidiaries	**964,511**
Cash and cash equivalents	**819**
	965,337

As at 31 December 2011	Loans and receivables (HK$'000)
Financial assets included in prepayments and other receivables (note 22)	174
Due from subsidiaries	459,928
Cash and cash equivalents	554,937
	1,015,039

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

COMPANY (Continued)

Financial liabilities

As at 31 December 2012	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 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

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 2012 (HK$'000)	**Level 1 (HK$'000)**	**Level 2 (HK$'000)**	**Level 3 (HK$'000)**
Available-for-sale investments	**123,335**	**—**	**—**	**123,335**

	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	—

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 (2011: 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 2012	**+5%/-5%**	**(596)/596**
Year ended 31 December 2011	+5%/-5%	(581)/581

A reasonably possible change of 5% 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 United States dollar ("US$"). The Group's exposure to foreign currency changes for all other currencies is not material. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ 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$'000)
Year ended 31 December 2012		
If US$ strengthens against RMB	**5%**	**(3,658)**
If US$ weakens against RMB	**-5%**	**3,658**
Year ended 31 December 2011		
If US$ strengthens against RMB	+5%	(3,314)
If US$ weakens against RMB	-5%	3,314

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 and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis 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 71% (2011: 76%) 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 2012					
Interest-bearing bank borrowings	—	**221,124**	—	—	**221,124**
Trade and notes payables	**690,291**	**100,977**	—	—	**791,268**
Other payables	**61,327**	—	—	—	**61,327**
	751,618	**322,101**	—	—	**1,073,719**

	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 bank 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

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 2012					
Other payables	**15,688**	—	—	—	**15,688**
Amount 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 2011					
Other payables	15,688	—	—	—	15,688
Amount due to a subsidiary	274	—	—	—	274
	15,962	—	—	—	15,962

Capital management

The primary objectives of the Group's capital management are 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 bank borrowings, trade and other payables, and amounts due to related parties less cash and cash equivalents. Capital includes equity attributable to owners of the Parent.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

	Group	
	2012	2011
	(HK$'000)	(HK$'000)
Trade and notes payables	**791,268**	857,302
Other payables, advances from customers and accruals	**289,827**	236,731
Interest-bearing bank borrowings	**220,783**	326,498
Less: Cash and cash equivalents	**(633,371)**	(788,356)
Net debt	**668,507**	632,175
Equity attributable to owners of the parent	**1,822,363**	1,679,602
Capital and net debt	**2,490,870**	2,311,777
Gearing ratio	**27%**	27%

41. EVENT AFTER THE REPORTING PERIOD

On 19 March 2013, the board of directors of the Company proposed a final dividend of HK5 cents per ordinary share totalling approximately HK$50,000,000 for the year ended 31 December 2012, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 14).

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

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				
	2012	2011	2010	2009	2008
	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)
Results					
Continuing operations					
Revenue	**4,554,462**	3,941,672	3,721,908	3,032,235	3,266,191
Cost of sales	**(3,682,571)**	(3,267,990)	(2,979,349)	(2,463,360)	(2,668,916)
Gross profit	**871,891**	673,682	742,559	568,875	597,275
Other income and gains	**54,030**	106,109	32,851	25,105	37,313
Selling and distribution expenses	**(359,350)**	(241,892)	(246,002)	(180,115)	(188,873)
Administrative expenses	**(342,301)**	(330,497)	(245,505)	(175,994)	(155,837)
Other expenses	**(3,381)**	(5,729)	(20,593)	(20,046)	(54,521)
Operating profit	**219,889**	201,673	263,310	217,825	235,357
Finance income	**7,911**	3,749	1,163	1,373	1,268
Finance costs	**(11,897)**	(11,617)	(18,341)	(14,415)	(18,950)
Profit before tax from continuing operations	**215,903**	193,805	246,132	204,783	217,675
Income tax expense	**(32,780)**	(16,117)	(42,942)	(40,421)	(44,141)
Profit for the year from continuing operations	**183,123**	177,688	203,190	164,362	173,534
Discontinued operations					
Loss after tax for the year from discontinued operations	—	—	(52,237)	(104,654)	(173,729)
Profit/(loss) for the year	**183,123**	177,688	150,953	59,708	(195)
Attributable to:					
Owners of the parent	**181,207**	176,915	150,925	62,745	2,480
Non-controlling interests	**1,916**	773	28	(3,037)	(2,675)
	183,123	177,688	150,953	59,708	(195)

	As at 31 December				
	2012 (HK$'000)	2011 (HK$'000)	2010 (HK$'000)	2009 (HK$'000)	2008 (HK$'000)
Assets, liabilities and non-controlling interests					
Total assets	**3,191,708**	3,171,239	3,009,887	2,909,852	2,822,194
Total liabilities	**(1,339,579)**	(1,463,791)	(1,469,010)	(2,085,439)	(2,063,260)
Non-controlling interests	**(29,766)**	(27,846)	(25,778)	(31,019)	(29,663)
	1,822,363	1,679,602	1,515,099	793,394	729,271


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