

好孩子

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2011

Goodbaby International Holdings Limited
Interim Report

好孩子國際控股有限公司
中期報告

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CORPORATE INFORMATION

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

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Ms. Chiang Yun

Independent Non-Executive Directors

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Mr. Long Yongtu
Mr. Shi Xiaoguang

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Mr. Long Yongtu
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Mr. Iain Ferguson Bruce *(Chairman)*
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BUSINESS REVIEW AND OUTLOOK

In the first half of 2011, Goodbaby International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) have achieved revenue of approximately HK\$1,970.6 million, up 8.5% compared with the corresponding period in 2010. During the six months ended 30 June 2011, the Group recorded net profit of approximately HK\$115.4 million, down 5.1% as compared with the profit from continuing operations of approximately HK\$121.6 million achieved during the corresponding period in 2010. The relative slowdown in the growth of the Group’s revenue is mainly attributable to the decline in revenue (down 6.8%) from the markets in North America^{Note 2} and the relative slowdown in the growth of its revenue (up 5.6%) from the European Market^{Note 2} despite robust growth in revenue (up 20.5% and 37.3%, respectively) from China and Other Overseas Markets^{Note 2}. The decrease in the profits from continuing operations is mainly due to the reduced in gross profits. (For detailed analysis of revenue and earnings please refer to the section “Financial Review” of this report).

Since 2011, the Group has further strengthened its self-operational capabilities which it has been focusing to develop for years and has further enhanced its position within the industry, laying a more solid foundation and providing further strong momentum for the rapid growth of the Company in future.

1. Leveraging on the strengthening leadership position in the China market, the Group is positioned for further acceleration in growth.

- (1) **Accelerating business growth.** Revenue growth of the Company in China increased from 13.7% in 2010 (as compared to the full year revenue in 2009) to 20.5% in the first half of 2011 (as compared to the revenue in the corresponding period in 2010).

(2) **Leading brand position.** According to a recent survey report^{Note 3} on stroller market, the “Goodbaby” brand has been considered by 94.6%, 72.9% and 76.8% of the people under survey as the most recognised brand, the most frequently mentioned brand and the most favourable brand, respectively, in China, far ahead of 39.6%, 4.2% and 5.1%, respectively enjoyed by the second-ranking brand.

(3) **Significant increase in channel coverage and penetration rate.** On the basis of sustained wide coverage on large department stores and hypermarkets, the Group has also quickly expanded and strengthened the coverage on and penetration into maternity and childcare specialty stores. Distribution network of the Group covered 31 provinces and municipalities, with the number of directly covered maternity and childcare specialty stores rising from 5,785 as at 31 December 2010 to 9,245 as at 30 June 2011, among which the number of

* *Note 1: All financial figures for the six months ended 30 June 2010 in this section are figures for continuing operations.*

Note 2: For purposes of this report, references to “European Market” mean countries in Europe to which the Group sells its product, which were Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the U.K.; “North America” means the United States and Canada; and “Other Overseas Markets” mean overseas markets other than North America and European Market, including markets such as Russia, Japan, South America, Middle East, Southeast Asia and India.

Note 3: Refers to the report of 葉茂中營銷策劃機構 · 葉茂中營銷策劃機構 is a renowned marketing and sales strategic company in China, and is an independent third party.

maternity and childcare specialty stores the Group has covered through in-depth distribution management system expanded from 4,725 in 33 cities of five provinces (including Shanghai) as at 31 December 2010 to 6,777 in 53 cities of 10 provinces (including Shanghai) as at 30 June 2011. In particular, the penetration rate of the target stores in the five provinces (including Shanghai) covered as at 31 December 2010 has risen from 42% as at 31 December 2010 to 57% as at 30 June 2011.

2. The position of the Group in the global durable juvenile product market has markedly strengthened furthering our bargaining power in this industry.

(1) **Continuous double-digit growth of revenue of our strollers and accessories.**

In the first half of 2011, the revenue of strollers and accessories of the Group from China, European Market and Other Overseas Markets grew by 34.1%, 7.2% and 40.4%, respectively, significantly outperforming the overall market growth. Although revenue of strollers and accessories from North America market decreased 5.4% due to the downturn of the US market, the overall revenue of strollers and accessories still recorded a growth of 12.6%.

(2) **Joining the US and European product standards associations as a member to participate in reviewing and revising of a number of national standards of developed countries.**

In the first half of 2011, the Group was invited by the American Society for Testing Materials and the European Committee for Standardization, respectively, to join

them as a member and participate in the developing or revising of standards of durable juvenile products for their countries and regions. So far, the Group has participated in revising 28 US national standards. The Group has also played a part in revising a national standard in Japan at the invitation of the Consumer Products Safety Association of Japan.

(3) **The Goodbaby laboratory has become a laboratory for cooperation for various international authoritative testing institutions.**

In the first half of 2011, the Group's laboratory, on the basis of having been certified as a China National Accredited Laboratory, was accredited by two international authoritative testing institutions and consecutively became a laboratory for cooperation for Societe Generale de Surveillance S.A (abbreviated as "SGS") and TUV Nord Group for conducting testing and chemical tests on car safety seats for children.

(4) **Achieving meaningful progress in the "Cradle to Cradle" ("C2C") project.**

The stroller, car safety seat and crib products developed by the Group based on the concept of C2C in the first half of 2011 were granted the silver certification by the C2C certification centre, Michael Braungart Design Chemistry. The Group is the first company in the global durable juvenile product industry and also so far the only company implementing the concept of C2C. The Group believes the continued progress achieved in the project can provide strong support to the Group in consolidating its leading position in the global durable juvenile product industry.

3. The self-operational business model of the Group has substantially strengthened, with increasing bargaining power in the industry.

In the first half of 2011, the OPM (“Original Products Manufacturer”) business model of the Group targeting the European and North America markets has substantially strengthened. On one hand, the Group’s market-oriented and independent complete product research and development capability was enhanced rapidly. New products of the “turnkey design” were continually launched. On the other hand, the Group has officially initiated the arrangement of making its own investment in moulds to enable the Group to have full control over specific products.

4. The Group has reached a new height in product innovation ability with progress in R&D capability of all durable juvenile products.

(1) **Accelerated launch of new products:** In the first half of 2011, the Group has launched 289 new products in total, an increase of 78 new products as compared with 211 new products in the corresponding period in 2010. Meanwhile, the Group has applied for a total of 285 patents, with an additional 32 patents as compared with a total of 253 patents in the corresponding period in 2010. In the second half of 2011, the Group will continue to launch more new products to various markets.

(2) **Rapid diversification of product mix.** While further enhancing the innovation ability of the Group in strollers and car safety seats, the Group has also substantially improved its ability to innovate other durable juvenile products. The Group has put in production the first

two new product models designed by its R&D centre in Hong Kong (established in July 2010) and commenced another 15 new product R&D projects. Special R&D departments for other durable juvenile products have been set up in Kunshan R&D centre. In the first half of 2011, they have launched 38 new products and commenced 127 new product R&D projects, while a batch of new products for crib, walkers and bouncers targeted at the North American mass market was available for sale in June 2011.

- (3) **Effective strategy of target new products for target markets.** While reinforcing the dominant position of the Group in North American mass market, the Group targeted at North American market for mid-to high-end product lines and successively brought a batch of strollers, cribs and dining chairs to Babies “R” Us, a high-end retail channel, in May 2011. With increasing product lines targeted at Japanese market, the Group launched 3 new models into the market and commenced 12 new product projects covering such durable juvenile products as strollers, car safety seats and bouncers. While continuing to consolidate the leadership in European mid-to high-end markets, the Group succeeded in launching products targeted at European mass market, which will begin sale in September 2011. Given the sluggish European Market, especially the declining market in South Europe, the Group carried out a number of product value engineering projects to optimize the costs and selling price in order to increase the sale of a batch of products on the basis of same or improved performance-price ratio.

5. The Group accelerated the progress of market and product diversification strategies resulting in increasing sources for sustained business growth.

(1) **A 37.3% increase in revenues from Other Overseas Markets.**

The Group implemented a full scale strategy for the self-owned brands of the Group in overseas markets and established a dedicated brand promotion team. The Group participated in a series of industry exhibitions in Other Overseas Markets to promote its self-owned brands. Up to now, the Group has taken part in the Hong Kong Toys & Games Fair, the Baby Expo-International Trade Fair of Goods and Services for Children, the Tokyo Baby & Kids Expo and the Korea COEX Baby Fair. In September 2011, the Group will also participate the Mir Detstva—Exhibition for Goods and Services for Children and Teenagers. In the first half of 2011, the Group recorded a business growth of over 40% in emerging markets including Russia, South America and Middle East. The Group has also made rapid headway in expanding the Japanese market, bringing products of its self-owned brands into Nishimatsuya and Akachanhonpo, two major mother & baby products retail chains targeting at mass market and medium to high-end market, respectively. In the first half of 2011, the Group posted a revenue growth of over 45% for products of its self-owned brands in the Japanese market.

(2) **Meaningful progress achieved in the implementation of the product diversification strategy.**

As mentioned above, a batch of strollers, cribs and dining chair products aiming at mid- to high-end North American markets have

been launched for sale in May 2011, while a batch of crib, walkers and bouncer products aiming at North American mass market entered sales phase in June 2011. The products of the Group oriented to the European mass market also achieved success and will be launched for sale in September 2011. Revenue from the independently developed car safety seats increased by 67.4%. Revenues from the sales of other durable juvenile products in European Market and Other Overseas Markets increased by 19.7% and 36.1%, respectively, while revenues from sales of other durable juvenile products other than children's bicycles in China increased by 24.7%. In the first half of 2011, the Group launched 38 new items of other durable juvenile products and initiated more than 140 new product research and development projects.

In July 2011, the Group was granted the "World Class Global Performance Excellence Award (Highest Honour)" by the Asia Pacific Quality Organization and was ranked No. 1 among the five prize-winning enterprises in 2011. This honour marks the recognition by the world's authorities for the Group's long-term commitment in providing high-quality products and services and its effort in establishing an excellent performance management system, and reflects the competitiveness of the Group in global markets.

Looking forward, the Group has commenced strategy-oriented projects for building the core competitiveness, aiming to incorporate the Group's five-year plan and strategic objectives to systematically straighten out and build the core capabilities that are necessary for realizing the strategic objectives of the Group, laying a solid foundation for better achievement and long-term sustainable development.

The second half of 2011 will be full of challenges. Looking to the future, the aforesaid arrangements and efforts will support the Group in confidently tackling challenges, making further progress and becoming more powerful. The varied new products of the Group will bring more market opportunities. The strong foundation and industry position that the Group has established and continuously enhanced can effectively promote the continuous growth in the future. The Group will continue to capitalize on and support our leading and dominant position in China market to strengthen brand promotion, intensify channel construction and enhance market penetration in order to rapidly enhance the growth in the China market; to keep expanding and strengthening the proprietary product lines (especially in the segment of car safety seats) and enhance the position in the industry chain so as to increase the profitability of the Group; to leverage on the excellent research and development capacity to continuously seize market share by launching multiple-level and diversified new products targeting the sluggish North American and European Market; to enhance the expansion to Other Overseas Markets, vigorously promote the brands, and build up and enhance the market position to increase sale; to develop the leading edge in the stroller sector and increase development in car safety seats and other durable juvenile products so as to establish the leading position of the Group globally in the area of all-round durable juvenile products.

FINANCIAL REVIEW

Revenue

The total revenue increased by 8.5% from approximately HK\$1,816.3 million for the six months ended 30 June 2010 to approximately HK\$1,970.6 million for the six months ended 30 June 2011. From the geographical region perspective, the increase was mainly due to an increase in revenue from China and Other Overseas Markets with a growth rate of 20.5% and 37.3%, respectively (Please refer to the section “Revenue by Geographical Region” below for details). From the product category perspective, the increase was mainly due to an increase in revenue from strollers and other durable juvenile products with a growth rate of 12.6% and 10.2%, respectively (Please refer to the section “Revenue by Products” below for details).

Revenue by Geographical Region

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

	For the period ended 30 June				Growth analysis 2011 vs 2010
	2011		2010		
	Sales (HK\$ million)	% of Sales	Sales (HK\$ million)	% of Sales	Growth
European Market	553.7	28.1%	524.5	28.9%	5.6%
North America	593.3	30.1%	636.4	35.0%	-6.8%
China	545.9	27.7%	453.1	25.0%	20.5%
Other Overseas Markets	277.7	14.1%	202.3	11.1%	37.3%
Total	1,970.6	100.0%	1,816.3	100.0%	8.5%

Revenue from the European Market increased by 5.6% to approximately HK\$553.7 million for the six months ended 30 June 2011 from approximately HK\$524.5 million for the six months ended 30 June 2010. The increase was attributable to the increase in revenue from strollers and accessories as well as other durable juvenile products, which was partially offset by the decrease in revenue from car seats and accessories.

Revenue from North America decreased by 6.8% to approximately HK\$593.3 million for the six months ended 30 June 2011 from approximately HK\$636.4 million for the six months ended 30 June 2010. The decrease was primarily attributable to the sluggish market in North America lacking consumer expenditure.

Revenue from China increased by 20.5% to approximately HK\$545.9 million for the six months ended 30 June 2011 from approximately HK\$453.1 million for the six months ended 30 June 2010. The increase was attributable to the increase in revenue from all product categories.

Revenue from Other Overseas Markets increased by 37.3% to approximately HK\$277.7 million for the six months ended 30 June 2011 from approximately HK\$202.3 million for the six months ended 30 June 2010, of which the revenue from strollers and accessories increased by 40.4%, while revenue from other product categories increased by 33.0%.

Revenue by Products

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

	For the period ended 30 June				Growth analysis
	2011		2010		2011 vs 2010
	Sales (HK\$ million)	% of Sales	Sales (HK\$ million)	% of Sales	Growth
Strollers and accessories	1,015.1	51.5%	901.3	49.6%	12.6%
Car seats and accessories	208.6	10.6%	237.3	13.1%	-12.1%
Other durable juvenile products	746.9	37.9%	677.7	37.3%	10.2%
Total	1,970.6	100.0%	1,816.3	100.0%	8.5%

Revenue from strollers and accessories increased by 12.6% to approximately HK\$1,015.1 million for the six months ended 30 June 2011 from approximately HK\$901.3 million for the six months ended 30 June 2010. The increase was attributable to the growth in revenue from China, Other Overseas Markets and the European Market and was partially offset by the decrease in revenue from the North America.

Revenue from car seats and accessories decreased by 12.1% to approximately HK\$208.6 million for the six months ended 30 June 2011 from approximately HK\$237.3 million for the six months ended 30 June 2010. The decrease was mainly attributable to a reduction in orders from the customers of the Group, which was partially compensated by the increase in revenue from the proprietary car seat products. Revenue from the proprietary car seat products increased by 67.4% from approximately HK\$12.9 million for the six months ended 30 June 2010 to approximately HK\$21.6 million for the six months ended 30 June 2011.

Revenue from other durable juvenile products increased by 10.2% to approximately HK\$746.9 million for the six months ended 30 June 2011 from approximately HK\$677.7 million for the six months ended 30 June 2010. The increase was attributable to the growth in revenue from China, Other Overseas Markets and the European Market and was partially offset by the decrease in revenue from the North America.

Cost of sales, Gross profit and Gross profit margin

The cost of sales increased by 12.1% to approximately HK\$1,606.4 million for six months ended 30 June 2011 from approximately HK\$1,433.3 million for the six months ended 30 June 2010. The increase was primarily due to the increased sales and production driven by higher demand for the products of the Group, as well as the increase in raw material prices and labor costs. The cost of sales as a percentage of sales increased from 78.9% for the six months ended 30 June 2010 to 81.5% for the six months ended 30 June 2011. The increase was primarily due to the rising prices of raw materials, appreciation of Renminbi and the rising labor costs, which was partially compensated by the increase in the unit selling price of products and the improvement in productivity.

As a result of the foregoing, the gross profit decreased by 4.9% from approximately HK\$383.0 million for the six months ended 30 June 2010 to approximately HK\$364.2 million for the corresponding period in 2011. The gross profit margin decreased from 21.1% for the six months ended 30 June 2010 to 18.5% for the corresponding period in 2011, primarily as a result of the following:

Overseas markets

In overseas markets, the gross profit margin decreased from 20.0% for the six months ended 30 June 2010 to 16.0% for the corresponding period in 2011. This was mainly attributable to a decline in the gross profit margin of car seat and accessory products as a result of the rising prices of raw materials, appreciation of Renminbi and rising labor costs.

China

In China, the gross profit margin increased from 24.5% for the six months ended 30 June 2010 to 25.0% for the corresponding period in 2011. The gross profit margin for all product lines basically remained stable, which was primarily attributable to an increase in the unit selling price of products, which was partially offset by the rising prices of raw materials and rising labor costs.

Other Income

The other income increased by HK\$30.4 million to approximately HK\$49.4 million for the six months ended 30 June 2011 from approximately HK\$19.0 million for the six months ended 30 June 2010, which was mainly attributable to exchange gains and gains from forward foreign exchange contracts.

Selling and Distribution Costs

The selling and distribution costs primarily consist of promotional expenses, salaries and transportation costs.

The selling and distribution costs increased by 11.3% to approximately HK\$140.4 million for the six months ended 30 June 2011 from approximately HK\$126.1 million for the six months ended 30 June 2010. The increase in selling and distribution costs was primarily due to an increase in promotional expenses.

Administrative Expenses

The administrative expenses primarily consist of salaries, research and development costs, and professional expenses.

The administrative expenses increased from approximately HK\$115.4 million for the six months ended 30 June 2010 to approximately HK\$129.8 million for the six months ended 30 June 2011. The increase in administrative expenses is primarily attributable to an increase in salary expenses, research and development costs and office expenses, which was partially compensated by a reduction in professional expenses.

Other Expenses

The other expenses decreased by HK\$5.6 million to approximately HK\$0.7 million for the six months ended 30 June 2011 from approximately HK\$6.3 million for the six months ended 30 June 2010, the decrease was mainly due to less exchange losses incurred.

Operating Profit

As a result of the foregoing, the operating profit decreased by 7.5% to approximately HK\$142.6 million for the six months ended 30 June 2011 from approximately HK\$154.1 million for the six months ended 30 June 2010.

Finance Income

The finance income increased from approximately HK\$0.3 million for the six months ended 30 June 2010 to approximately HK\$1.6 million for the six months ended 30 June 2011, all finance income was interest income from bank deposits.

Finance Costs

The finance costs decreased from approximately HK\$7.6 million for the six months ended 30 June 2010 to approximately HK\$4.9 million for the six months ended 30 June 2011, the decrease was mainly attributable to lower usage of bank loans and more utilization of the loans denominated in U.S. dollar with lower borrowing cost for the six months ended 30 June 2011.

Profit Before Tax

As a result of the foregoing, the profit before tax from the continuing operations (representing the total sum of gross profit, other income, administrative expenses, selling and distribution costs, other expenses, finance costs and finance income) decreased by 5.0% from approximately HK\$146.8 million for the six months ended 30 June 2010 to approximately HK\$139.4 million for the six months ended 30 June 2011.

Income Tax Expense

The income tax expense was approximately HK\$24.0 million for the six months ended 30 June 2011, whereas the income tax expense was approximately HK\$25.2 million for the six months ended 30 June 2010. The effective tax rate was 17.2% for the six months ended 30 June 2011, and the effective tax rate for the six months ended 30 June 2010 was also 17.2%.

Profit for the Period

For the six months ended 30 June 2011, the profit for the period was approximately HK\$115.4 million, whilst the profit for the six-month period ended 30 June 2010 was approximately HK\$121.6 million.

Working Capital

	As at 30 June 2011 (HK\$ million)	As at 31 December 2010 (HK\$ million)
Trade receivables	478.7	493.7
Trade and notes payables	712.5	685.2
Inventories	564.1	571.3
Trade receivables turnover days ⁽¹⁾	45	53
Trade and notes payables turnover days ⁽²⁾	79	89
Inventories turnover days ⁽³⁾	64	85

Notes:

- (1) *Trade receivables turnover days = Number of days in the reporting period x (Average balance of trade 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 trade receivables balance decreased by HK\$15.0 million from approximately HK\$493.7 million as at 31 December 2010 to approximately HK\$478.7 million as at 30 June 2011, the decrease was mainly attributable to further improvement in the management of receivables by the Group.

The balance of trade and notes payables increased by HK\$27.3 million from approximately HK\$685.2 million as at 31 December 2010 to approximately HK\$712.5 million as at 30 June 2011, the increase was mainly due to an increase in business volume resulting in an increase in trade payables.

The balance of inventories decreased by HK\$7.2 million from approximately HK\$571.3 million as at 31 December 2010 to approximately HK\$564.1 million as at 30 June 2011, remaining stable.

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 will be 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 30 June 2011, the Group's cash and cash equivalents were approximately HK\$1,018.5 million, of which: HK\$903.2 million were denominated in Renminbi, HK\$19.8 million were denominated in HK dollars and HK\$95.5 million were denominated in other currencies. (As at 31 December 2010: approximately HK\$1,024.7 million, of which: HK\$110.9 million were denominated in Renminbi, HK\$832.4 million were denominated in HK dollars and HK\$81.4 million were denominated in other currencies).

As at 30 June 2011, the Group's interest-bearing bank borrowings were approximately HK\$439.2 million (as at 31 December 2010: approximately HK\$472.4 million), of which: approximately HK\$108.2 million were denominated in Renminbi (as at 31 December 2010: approximately HK\$242.1 million were denominated in Renminbi), and approximately HK\$331.0 million were denominated in U.S. dollars (as at 31 December 2010: approximately HK\$230.3 million were denominated in U.S. dollars). Out of these amounts, approximately HK\$60.1 million were charged at fixed interest rate (as at 31 December 2010: approximately HK\$150.7 million were charged at fixed interest rate) and approximately HK\$379.1 million were charged at variable interest rate (as at 31 December 2010: approximately HK\$321.7 million were charged at variable interest rate).

Contingent Liabilities

As at 30 June 2011, the Group had no material contingent liabilities (as at 31 December 2010: nil).

Exchange Rate Fluctuations

The sales are mainly denominated in U.S. dollars and Renminbi. The cost of sales and operating expenses are mainly denominated in Renminbi. For the six months ended 30 June 2011, approximately 72.3% of the revenue was denominated in U.S. dollars. Renminbi appreciated by approximately 2.3% against the U.S. dollar during the six months ended 30 June 2011. If the Group is unable to increase the U.S. dollar selling prices of the products sold to the overseas customers for offsetting any appreciation of the Renminbi against the U.S. dollar, the gross profit margin will be adversely affected.

During the six months ended 30 June 2011, the Group entered into forward foreign exchange contracts denominated in U.S. dollars with an aggregated amount of US\$297.3 million in order to manage its risk exposure, of which the amount of contracts expired on or before 30 June 2011 was approximately US\$89.8 million, and the amount of outstanding contracts was approximately US\$207.5 million.

Pledge of Assets

As at 30 June 2011, some of the Group's interest-bearing bank borrowings were pledged by intra-group trade receivables of approximately HK\$299.8 million (as at 31 December 2010: approximately HK\$167.2 million), and such trade receivables were eliminated in the consolidated financial statements of the Group.

Gearing Ratio

As at 30 June 2011, 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 19.6% (as at 31 December 2010: approximately 20.9%).

Employees and Remuneration Policy

As at 30 June 2011, the Group had a total number of 15,332 full-time employees (as at 30 June 2010, the Group had a total number of 17,425 full-time employees). For the six months ended 30 June 2011, employee costs, excluding directors' emoluments, amounted to a total of HK\$297.5 million (for the six months ended 30 June 2010, employee costs, excluding directors' emoluments, amounted to a total of HK\$242.2 million). The Group determined the remuneration packages of all employees 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. During the six months ended 30 June 2011, no share option was granted.

Purchase, Sales or Redemption of Shares

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Significant Acquisition, Disposal or Investment

As at 30 June 2011, the Group had no specific material investment target. The Group did not have any material acquisition and disposals of subsidiaries and associated companies, and investment during the period under review.

Dividends

The Board does not recommend payment of any dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

Code on Corporate Governance

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. For the six months ended 30 June 2011, the Board is of the view that the Company has complied with the code provisions on the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for the following deviation:

Code provision A.2.1: The roles of chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual. Mr. Song Zhenghuan ("Mr. Song") is an executive Director, the chairman of the Company, CEO and the founder of the Group.

The Board considers that vesting the roles of the chairman of the Company and CEO 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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Listing Rules (the "**Model Code**") as the standards for the Directors' dealings in the securities of the Company. The Directors have confirmed, having made specific enquiry with the Directors of the Company, that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2011.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors. The Audit Committee has reviewed with the Company’s management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011.

The unaudited interim results for the six months ended 30 June 2011 have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Interest and Short Positions of Directors in The Shares, Underlying Shares or Debentures

As at 30 June 2011, the interest or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”)) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

Directors' Interest in the Shares

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 30 June 2011, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the

underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

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

Name	Capacity	Number of Shares	Percentage of Shareholding
CRF Enterprise Limited	Beneficial owner	396,000,000 (L)	39.6%
CRF Investment Limited (Note 3)	Interest of controlled corporation	396,000,000 (L)	39.6%
CRF Investment Holdings Limited (Note 4)	Interest of controlled corporation	396,000,000 (L)	39.6%
ARC Capital Holdings Limited (Note 4)	Interest of controlled corporation	396,000,000 (L)	39.6%
ARC Capital Partners Limited (Note 5)	Investment manager	396,000,000 (L)	39.6%
Pacific Alliance Equity Partners Limited (Note 6)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Investment Management Limited (Note 7)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Group Limited (Note 8)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Group Holdings Limited (Note 9)	Interest of controlled corporation	396,000,000 (L)	39.6%
Millennium Partners, L.P. (Note 10)	Interest of controlled corporation	396,000,000 (L)	39.6%
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	67,029,000 (L)	6.7%

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 30 June 2011, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.
- (3) CRF Investment Limited holds a 74.78% shareholding interest in CRF Enterprise Limited and is therefore deemed to be interested in 396,000,000 Shares.
- (4) ARC Capital Holdings Limited ("ARCH") and CRF Investment Holdings Limited ("CRFIH") hold respectively a 50.25% and 49.75% shareholding interest in CRF Investment Limited, and consequently each of ARCH and CRFIH is deemed to be interested in 396,000,000 Shares.

- (5) ARCH is an investment fund the shares of which are managed by ARC Capital Partners Limited ("ACP"), which has the right to exercise the voting rights attached to ARCH's holding of shares in CRF Investment Limited and consequently ACP is deemed to be interested in 396,000,000 Shares.
- (6) Pacific Alliance Equity Partners Limited ("PAEP") holds a 100% shareholding interest in ACP and is therefore deemed to be interested in 396,000,000 Shares.
- (7) Pacific Alliance Investment Management Limited ("PAIM") holds a 61.8% shareholding interest in PAEP and is therefore deemed to be interested in 396,000,000 Shares.
- (8) Pacific Alliance Group Limited ("PAG") holds a 90% shareholding interest in PAIM and is therefore deemed to be interested in 396,000,000 Shares.
- (9) Pacific Alliance Group Holdings Limited holds 99.17% shareholding interest in PAG and is therefore deemed to be interested in 396,000,000 Shares.
- (10) Millennium Partners, L.P. holds a 34.72% shareholding interest in CRFIH and is therefore deemed to be interested in 396,000,000 Shares. Millennium Management LLC is the general partner of Millennium Partners, L.P., and therefore may also be deemed to be interested in 396,000,000 Shares. Israel A. Englander, is the managing member of Millennium Management LLC, and therefore may also be deemed to be interested in 396,000,000 Shares.

Disclosure of Information of Director under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules

Save as disclosed in the 2010 annual report, Mr. Christopher Marcus Gradel is also a non-executive director of Africa Opportunity Fund Limited (listed on the AIM market of the London Stock Exchange plc), ARC Capital Holdings Limited (listed on the AIM market of the London Stock Exchange plc), Pacific Alliance Asia Opportunity Fund Limited (listed on the AIM market of the London Stock Exchange plc) and Pacific Alliance China Land Limited (listed on the AIM market of the London Stock Exchange plc and on the Channel Islands Stock Exchange (the "CISX") in November 2007 and delisted voluntarily from the CISX on 6 March 2009).

Save as mentioned above, there is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules since the publication of the 2010 annual report of the Company.

For and on behalf of the Board of Directors

Song Zhenghuan

Chairman

17 August 2011



让爱拥抱你
with love
from gb

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Goodbaby International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2011, comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory information. Management is responsible for the preparation and presentation of interim condensed consolidated financial statements in accordance with International Financial Reporting Standard 34 “ Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
17 August 2011

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Continuing operations			
Revenue	4,5	1,970,618	1,816,289
Cost of sales		(1,606,427)	(1,433,330)
Gross profit		364,191	382,959
Other income	5	49,377	18,962
Selling and distribution costs		(140,448)	(126,056)
Administrative expenses		(129,806)	(115,405)
Other expenses		(712)	(6,345)
Operating profit		142,602	154,115
Finance income	6	1,645	320
Finance costs	7	(4,865)	(7,596)
Profit before tax from continuing operations	8	139,382	146,839
Income tax expense	9	(23,982)	(25,202)
Profit for the period from continuing operations		115,400	121,637
Discontinued operation			
Loss after tax for the period from a discontinued operation	10	-	(41,287)
Profit for the period		115,400	80,350
Other comprehensive income			
Exchange differences on translation		16,106	7,690
Total comprehensive income for the period, net of tax		131,506	88,040
Profit for the period attributable to:			
Owners of the parent		114,473	81,564
Non-controlling interests		927	(1,214)
		115,400	80,350

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2011

	Notes	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Total comprehensive income attributable to:			
Owners of the parent		129,956	88,961
Non-controlling interests		1,550	(921)
		131,506	88,040
Earnings per share attributable to ordinary equity holders of the parent:	12		
Basic and diluted			
- For profit for the period (HK\$)		0.11	0.10
- For profit from continuing operations (HK\$)		0.11	0.15

Details of the dividends payable and proposed for the period are disclosed in note 11 to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	13	569,745	538,491
Land lease payments		67,376	67,118
Intangible assets		33,195	30,836
Deferred tax assets		9,795	15,912
Total non-current assets		<u>680,111</u>	<u>652,357</u>
CURRENT ASSETS			
Inventories	14	564,063	571,309
Trade and notes receivables	15	495,913	506,311
Prepayments and other receivables		187,086	178,243
Derivative financial instruments		15,987	-
Due from related parties	20	132,174	76,945
Cash and cash equivalents		1,018,484	1,024,722
Total current assets		<u>2,413,707</u>	<u>2,357,530</u>
CURRENT LIABILITIES			
Trade and notes payables	16	712,528	685,180
Other payables, advances from customers and accruals		238,235	265,924
Interest-bearing bank borrowings	17	439,184	319,590
Derivative financial instruments		-	2,885
Dividends payable		17,557	-
Due to related parties	20	-	649
Income tax payable		35,341	9,732
Provision		13,677	23,922
Total current liabilities		<u>1,456,522</u>	<u>1,307,882</u>
NET CURRENT ASSETS		<u>957,185</u>	<u>1,049,648</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,637,296</u>	<u>1,702,005</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2011

	Notes	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	17	-	152,779
Deferred tax liabilities		14,913	8,349
Total non-current liabilities		14,913	161,128
Net assets		1,622,383	1,540,877
EQUITY			
Equity attributable to owners of the parent			
Issued capital		10,000	10,000
Reserves		1,585,055	1,505,099
		1,595,055	1,515,099
Non-controlling interests		27,328	25,778
Total equity		1,622,383	1,540,877

SONG Zhenghuan
Director

WANG Haiye
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the parent									
	Share capital (HK\$'000)	Share premium (HK\$'000)	Statutory reserve funds (HK\$'000)	Cumulative translation adjustments (HK\$'000)	Merger reserve (HK\$'000)	Proposed final dividend (HK\$'000)	Retained earnings (HK\$'000)	Total (HK\$'000)	Non-controlling interests (HK\$'000)	Total equity (HK\$'000)
1 January 2011	10,000	916,913	105,568	139,849	153,975	50,000	138,794	1,515,099	25,778	1,540,877
Profit for the period	-	-	-	-	-	-	114,473	114,473	927	115,400
Other comprehensive income for the period:										
Exchange differences on translation	-	-	-	15,483	-	-	-	15,483	623	16,106
Total comprehensive income for the period	-	-	-	15,483	-	-	114,473	129,956	1,550	131,506
Dividends (note 11)	-	-	-	-	-	(50,000)	-	(50,000)	-	(50,000)
As at 30 June 2011 (Unaudited)	10,000	916,913*	105,568*	155,332*	153,975*	-*	253,267*	1,595,055	27,328	1,622,383

	Attributable to owners of the parent								
	Share capital (HK\$'000)	Share premium (HK\$'000)	Statutory reserve funds (HK\$'000)	Cumulative translation adjustments (HK\$'000)	Merger reserve (HK\$'000)	Non-Retained earnings (HK\$'000)	Total (HK\$'000)	controlling interests (HK\$'000)	Total equity (HK\$'000)
1 January 2010	273	255,668	87,923	124,903	118,276	206,351	793,394	31,019	824,413
Profit for the period	-	-	-	-	-	81,564	81,564	(1,214)	80,350
Other comprehensive income for the period:									
Exchange differences on translation	-	-	-	7,397	-	-	7,397	293	7,690
Total comprehensive income for the period	-	-	-	7,397	-	81,564	88,961	(921)	88,040
Deemed contribution from an equity holder	-	-	-	-	35,699	-	35,699	-	35,699
Disposal of a discontinued operation	-	-	-	-	-	-	-	(6,167)	(6,167)
As at 30 June 2010 (Unaudited and unreviewed)	273	255,668*	87,923*	132,300*	153,975*	287,915*	918,054*	23,931	941,985

* These reserve accounts comprise the consolidated reserves of HK\$1,585,055,000 (2010: HK\$917,781,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(HK\$'000)	(HK\$'000)
	(Unaudited)	(Unaudited and unreviewed)
Net cash flows generated from operating activities	128,102	66,042
Net cash flows used in investing activities	(54,177)	(125,647)
Net cash flows (used in)/ generated from financing activities	(80,163)	56,430
Net decrease in cash and cash equivalents	(6,238)	(3,175)
Cash and cash equivalents at the beginning of each period	1,024,722	218,585
Cash and cash equivalents at the end of each period	1,018,484	215,410

continued/...

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 14 July 2000 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2010.

The Group is principally engaged in the manufacturing and distribution of child related products.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") that remains in effect.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the interim condensed consolidated financial statements.

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets ²
IAS 27 (Revised)	Separate Financial Statements ³
Amendments to IFRS 7	Disclosures - Transfers of Financial Assets ¹
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ³
IFRS 11	Joint Arrangements ³
IFRS 12	Disclosure in Interests in Other Entities ³
IFRS 13	Fair Value Measurement ³
IAS 1 Amendments	Presentation of Financial Statements ⁴
IAS 19 Amendments	Employee Benefits ³

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 January 2013

⁴ Effective for annual periods beginning on or after 1 July 2012

The directors are in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the directors anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the Group's results of operations and financial position.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has four reportable operating segments as follows:

- (a) Overseas – Strollers and accessories segment, which engages in the research, design, manufacturing and selling of strollers and accessories under the Group's own brands and third parties' brands;
- (b) Overseas – Other durable juvenile products segment, which engages in the research, design, manufacturing and selling of car seats and accessories, cribs and accessories and other children's products under the Group's own brands and third parties' brands;
- (c) Domestic – Strollers and accessories segment, which engages in sourcing and distributing strollers; and
- (d) Domestic – Other durable juvenile products segment, which engages in sourcing and distributing 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

4. OPERATING SEGMENT INFORMATION (Continued)

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

Six months ended 30 June 2011

	Overseas HK\$'000 (Unaudited)			Domestic HK\$'000 (Unaudited)			Consolidated HK\$'000 (Unaudited)
	Strollers and accessories	Other durable juvenile products	Subtotal	Strollers and accessories	Other durable juvenile products	Subtotal	
Segment revenue:							
Sales to external customers	789,294	635,402	1,424,696	225,840	320,082	545,922	1,970,618
Intersegment sales	101,591	100,476	202,067	-	-	-	202,067
							2,172,685
Reconciliation:							
Elimination of intersegment sales							(202,067)
Revenue from continuing operations							1,970,618
Cost of sales							(1,606,427)
Other income							49,377
Operating costs							(270,254)
Other expenses							(712)
Finance costs - net							(3,220)
Profit before tax from continuing operations							139,382

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

5. REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Revenue:		
Sales of goods	1,970,618	1,816,289
Other income:		
Government grants (note (a))	7,841	2,184
Gain on sales of raw materials	2,052	6,994
Gain on sales of scrap materials	4,784	3,476
Compensation income (note (b))	2,137	2,934
Service fee income (note (c))	1,241	711
Gain on revaluation of derivative financial instruments (note (d))	15,987	1,683
Foreign exchange gains	15,125	-
Others	210	980
Total	49,377	18,962

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

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

Note (c): The amount represents the service fee income for factory administrative services provided to a third party.

Note (d): The amount represents the gain on revaluation of forward currency contracts.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

6. FINANCE INCOME

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Continuing operations:		
- Interest income on bank deposits	<u>1,645</u>	<u>320</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Continuing operations:		
- Interest expense on bank loans and borrowings	<u>4,865</u>	<u>7,596</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2011	2010
	(HK\$'000)	(HK\$'000)
	(Unaudited)	(Unaudited and unreviewed)
Cost of inventories recognized as expenses	1,229,956	1,083,098
Depreciation of property, plant and equipment	34,493	32,997
Amortization of intangible assets	1,524	1,214
Amortization of land lease payments	1,287	870
Research and development costs ("R&D")	44,752	39,490
Lease payments under operating leases in respect of properties	21,119	13,237
Auditors' remuneration (note (a))	2,436	3,036
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	290,043	238,145
Pension scheme contributions	13,495	8,433
	303,538	246,578
Net foreign exchange (gains)/losses	(15,125)	5,041
Provision for impairment of receivables	-	63
Write-down of inventories	-	914
Product warranty	833	9,560
Fair value gain on derivative financial instruments	(15,987)	(1,683)
Loss on disposal of items of property, plant and equipment	346	315
Bank interest income	(1,645)	(320)
	=====	=====

Note (a): Auditors' remuneration for the period ended 30 June 2010 included a fee of HK\$2,163,000 related to the listing of the Company's shares on the Stock Exchange.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

9. INCOME TAX

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands (the “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 period.

State income tax and federal income tax of the Group’s subsidiary in the United States have been provided for at the rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the period. 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”) and only have operations in the PRC 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 charge in the PRC, one of the Group’s subsidiaries, Goodbaby Child Products Co., Ltd. (“GCPC”), is qualified as a “High and New Technology Enterprise” (“HNTE”) and was subject to a preferential tax rate of 15% from 2008 to 2010. The HNTE status is renewable three years after certificate issuance and needs to be reapplied three years after certificate renewal via an application and approval process which will be initiated prior to the expiry of the HNTE certification. As at 30 June 2011, the renewable procedure was still in process and at the current stage, the Company’s directors believe that it is likely that GCPC will qualify for the HNTE status upon renewal; as a result, the Company applied a 15% corporate income tax rate for GCPC for the six months ended 30 June 2011 and on deferred taxes for GCPC as at 30 June 2011, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

9. INCOME TAX (Continued)

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

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
PRC income tax		
Current income tax - PRC	7,531	17,283
United States state and federal income tax	(1,419)	2,955
Japan income tax	-	-
Netherlands income tax	44	34
Hong Kong profits tax	5,145	610
Deferred income tax	12,681	4,320
Income tax expense reported in the statement of comprehensive income	23,982	25,202

10. DISCONTINUED OPERATION

In 2010, the Group disposed of its equity interests in Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Goodbaby Online Services Co., Ltd. ("SGOL"), Richy Bright Limited ("RCBL"), Mothercare-Goodbaby China Retail Limited ("MGCR") and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to G-baby holding Limited ("GBHL") for a consideration of HK\$7,799,000 in aggregate, resulting in a gain of HK\$35,699,000 (note 18). SHFS, SGOL, RCBL, MGCR and MGRL are mainly engaged in the domestic retail business. The disposal of the domestic retail business has been accounted for as a discontinued operation.

Furthermore, in 2010, one of the Group's subsidiaries, GCPC, underwent a demerge exercise and a new entity, namely Goodbaby China Commercial Co., Ltd. ("GCCL"), was established to take over the domestic retail business from GCPC. The Group disposed of its equity interests in GCCL for a consideration of HK\$280,137,000 and the demerge was subsequently completed on 31 July 2010.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

10. DISCONTINUED OPERATION (Continued)

The results of the aforesaid discontinued operation during the six months ended 30 June 2010 are presented below:

	Six months ended 30 June 2010 (HK\$'000) (Unaudited and unreviewed)
Revenue	623,117
Cost of sales	(435,617)
	<hr/>
Gross profit	187,500
Other income	4,923
Selling and distribution costs	(174,315)
Administrative expenses	(59,505)
Other expenses	976
	<hr/>
Operating loss	(40,421)
Finance income	471
Finance costs	(6,700)
	<hr/>
Loss before tax	(46,650)
Income tax credit	5,363
	<hr/>
Loss for the period	<u><u>(41,287)</u></u>

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

	Six months ended 30 June 2010 (HK\$'000) (Unaudited and unreviewed)
Operating activities	54,568
Investing activities	(22,173)
Financing activities	(6,634)
	<hr/>
Net inflow	<u><u>25,761</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

11. DIVIDENDS PAID AND PROPOSED

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend for 2010: HK\$0.05 (2009: Nil)	<u>50,000</u>	<u>-</u>

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period 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 six months ended 30 June 2011 (six months ended 30 June 2010: 799,000,000), as adjusted to reflect the capitalization issue during 2010.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2010 and 2011 includes the pro forma issued share capital of the Company of 799,000,000 shares, comprising:

- i) 27,300,000 issued and fully paid shares; and
- ii) the capitalization issue of 771,700,000 shares.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2011 includes the 201,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 24 November 2010 in addition to the aforementioned 799,000,000 ordinary shares.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

12. EARNINGS PER SHARE (Continued)

The calculations of the basic earnings per share are based on:

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	114,473	120,435
From a discontinued operation	-	(38,871)
	<u>114,473</u>	<u>81,564</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>1,000,000,000</u>	<u>799,000,000</u>

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2011 as the Group had no potentially dilutive ordinary shares in issue during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

13. 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)
Cost							
As at 1 January 2011	398,359	480,070	5,897	39,879	43,774	7,529	975,508
Additions	3,133	21,668	2,373	13,808	415	16,116	57,513
Transfers	4,400	1,580	-	-	-	(5,980)	-
Disposals	-	(6,750)	(302)	(830)	(715)	-	(8,597)
Translation adjustments	9,302	11,274	152	1,054	1,011	262	23,055
As at 30 June 2011 (Unaudited)	<u>415,194</u>	<u>507,842</u>	<u>8,120</u>	<u>53,911</u>	<u>44,485</u>	<u>17,927</u>	<u>1,047,479</u>
Accumulated depreciation							
As at 1 January 2011	132,430	251,902	2,432	20,812	29,441	-	437,017
Depreciation charge	8,936	17,951	478	5,408	1,720	-	34,493
Disposals	-	(3,259)	(272)	(597)	-	-	(4,128)
Translation adjustments	3,094	5,968	58	534	698	-	10,352
As at 30 June 2011 (Unaudited)	<u>144,460</u>	<u>272,562</u>	<u>2,696</u>	<u>26,157</u>	<u>31,859</u>	<u>-</u>	<u>477,734</u>
Net carrying amount							
As at 30 June 2011 (Unaudited)	<u>270,734</u>	<u>235,280</u>	<u>5,424</u>	<u>27,754</u>	<u>12,626</u>	<u>17,927</u>	<u>569,745</u>
As at 31 December 2010	<u>265,929</u>	<u>228,168</u>	<u>3,465</u>	<u>19,067</u>	<u>14,333</u>	<u>7,529</u>	<u>538,491</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

14. INVENTORIES

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Raw materials	191,165	169,067
Work in progress	82,695	84,491
Finished goods	290,203	317,751
	<u>564,063</u>	<u>571,309</u>

15. TRADE AND NOTES RECEIVABLES

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Trade receivables	478,687	493,714
Notes receivables	17,665	13,026
	<u>496,352</u>	<u>506,740</u>
Impairment for trade receivables	(439)	(429)
	<u>495,913</u>	<u>506,311</u>

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 minimize 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

15. TRADE AND NOTES RECEIVABLES (Continued)

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

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Within 3 months	473,450	479,280
3 to 6 months	3,663	9,261
6 months to 1 year	1,132	4,584
Over 1 year	3	160
	<hr/>	<hr/>
	478,248	493,285
	<hr/> <hr/>	<hr/> <hr/>

16. 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:

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Within 3 months	686,296	594,236
3 to 12 months	21,622	87,069
1 to 2 years	2,961	2,174
2 to 3 years	902	872
Over 3 years	747	829
	<hr/>	<hr/>
	712,528	685,180
	<hr/> <hr/>	<hr/> <hr/>

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

17. INTEREST-BEARING BANK BORROWINGS

	As at 30 June 2011			As at 31 December 2010		
	Effective interest rate (%)	Maturity	HK\$'000 (Unaudited)	Effective interest rate (%)	Maturity	HK\$'000 (Audited)
Current						
Unsecured bank loans	3.66 - 6.26	2011	177,133	2.99 - 4.86	2011	167,149
Bank borrowings pledged by intra-group trade receivables	2.85 - 4.01	2011	<u>262,051</u>	1.05 - 1.06	2011	<u>152,441</u>
Subtotal			439,184			319,590
Non-current						
Unsecured bank loans			<u>-</u>	4.86	2012	<u>152,779</u>
Total			<u>439,184</u>			<u>472,369</u>

All short-term bank borrowings were obtained from third party financial institutions. As at 30 June 2011, a subsidiary pledged trade receivables of approximately HK\$299,788,000 (31 December 2010: HK\$167,162,000) to secure certain of the Group's bank loans and these trade receivables were eliminated on group level.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

18. DISPOSAL OF SUBSIDIARIES/OPERATIONS

As detailed in note 10 to the financial statements, the Group disposed of certain subsidiaries/operations to related parties during the six months ended 30 June 2010.

	Six months ended 30 June 2010 (HK\$'000) (Unaudited and unreviewed)
Net assets disposed of:	
Property, plant and equipment	49,784
Intangible assets	733
Inventories	279,229
Trade and other receivables	61,994
Amounts due from related parties	52,826
Cash and cash equivalents	28,796
Trade and other payables	(157,129)
Amounts due to related parties	(337,957)
Non-controlling interests	(6,176)
	<u>(27,900)</u>
Gain on disposal recognized as a deemed contribution directly in equity	<u>35,699</u>
	<u>7,799</u>
Satisfied by:	
Offsetting an amount due to a related party	200,350
Amount due to a related party	(192,551)
	<u>7,799</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

19. COMMITMENTS

The Group had the following capital commitments as at 30 June 2011 and 31 December 2010:

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Contracted, but not provided for in respect of the acquisition of: Property, plant and equipment	15,936	-

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
CRF Enterprise Ltd ("CRFE")	One of the Company's shareholders
CRF Investment Holdings Limited ("CRF")	Parent company of CRFE
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 are significantly influenced by Mr. Song and Ms. Fu
Goodbaby Group Co., Ltd. ("GGCL")	Significantly influenced by Mr. Song
GBHL	Significantly influenced by CRFE
Geoby Electric Vehicle Co., Ltd. ("GPCL")	Controlled by GBHL
GCCL	Controlled by GBHL
RCBL	Controlled by GBHL
MGCR	Controlled by GBHL
SHFS	Controlled by GBHL
MGRL	Controlled by GBHL
Majestic Sino Ltd. ("MJSL")	Controlled by GBHL
Shanghai Goodbaby Child Products Co., Ltd. ("SGCP")	Controlled by MJSL

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

20.RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2011	2010
	(HK\$'000)	(HK\$'000)
	(Unaudited)	(Unaudited and unreviewed)
Sales of goods to related parties (note (a))		
GCCL	181,585	-
SGCP	-	5,550
MGRL	-	225
SHFS	-	259
	<hr/>	<hr/>
	181,585	6,034
	<hr/> <hr/>	<hr/> <hr/>
Sales of raw materials to a related party (note (a))		
GPCL#	-	7,023
	<hr/> <hr/>	<hr/> <hr/>
Sales of property, plant and equipment to a related party (note (a))		
GPCL	-	490
	<hr/> <hr/>	<hr/> <hr/>
Purchase of goods from related parties (note (b))		
BRKH	-	3,432
GPCL	-	6,743
	<hr/>	<hr/>
	-	10,175
	<hr/> <hr/>	<hr/> <hr/>
Purchase of raw materials from a related party (note (b))		
GPCL	-	73
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions (Continued)

	Six months ended 30 June	
	2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Purchase of property, plant and equipment from a related party (note (b))		
GPCL	-	996
	<u> </u>	<u> </u>
Service fee income from a related party (note (c))		
GPCL#	-	773
	<u> </u>	<u> </u>
Rental income from related parties (note (c))		
SHFS	-	210
GPCL	-	931
	<u> </u>	<u> </u>
	-	1,141
	<u> </u>	<u> </u>
Rental expense to a related party (note (d))		
GGCL#	-	799
	<u> </u>	<u> </u>
Expenses paid on behalf of related parties (note (f))		
BRKH	-	31
GPCL	-	3,413
	<u> </u>	<u> </u>
	-	3,444
	<u> </u>	<u> </u>
Expenses paid by a related party on behalf of (note (f))		
GPCL	-	6,979
	<u> </u>	<u> </u>
Advances to related parties (note (e))		
GBHL	-	37,227
SGCP	-	6,586
	<u> </u>	<u> </u>
	-	43,813
	<u> </u>	<u> </u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions (Continued)

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

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

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

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

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

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

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

(c) Other transactions with related parties

- (i) In 2010, the Group disposed of a discontinued operation to a related party. Details of which are described in notes 10 and 18. The disposal of the discontinued operation was made according to the considerations and terms agreed between the related parties.
- (ii) Prior to the listing of the Company's shares on the Stock Exchange, the Company and certain subsidiaries have guaranteed the borrowings of GBHL from Fubon, secured all of their assets and pledged 25% equity interest in GCPN and 100% equity interest in GCPC to Fubon. The above guarantees and pledge of assets and equity interest were released on 24 November 2010 upon the repayment of borrowings from Fubon by GBHL.
- (iii) The Group offset its amount due from GBHL with an amount due to GBHL of HK\$200,350,000 during the six months ended 30 June 2010.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(d) Outstanding balances with related parties

GROUP

	As at 30 June 2011 (HK\$'000) (Unaudited)	As at 31 December 2010 (HK\$'000) (Audited)
Amounts due from related parties		
GCCL	132,174	75,550
GPCL	-	1,395
	<u>132,174</u>	<u>76,945</u>
Amounts due to related parties		
GBHL	-	446
CRFE	-	203
	<u>-</u>	<u>649</u>

(e) Compensation of key management personnel of the Group

	Six months ended 30 June 2011 (HK\$'000) (Unaudited)	2010 (HK\$'000) (Unaudited and unreviewed)
Short term employee benefits	12,054	11,316
Post-employment benefits	83	72
	<u>12,137</u>	<u>11,388</u>
Total compensation paid to key management personnel		

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2011

21. MAJOR NON-CASH TRANSACTIONS

In addition to the disclosure made in note 18, the Group offset its amount due from GBHL with an amount due to a certain related party amounting to HK\$200,350,000 during the six months ended 30 June 2010, all of which did not result in any cash flows.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited interim condensed consolidation financial statements were approved and authorized for issue by the board of directors on 17 August 2011.

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