Goodbaby International Holdings Limited
好孩子國際控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1086)

ANNUAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Highlights

- Revenue for the year ended 31 December 2016 was approximately HK$6,238.2 million, decreased by approximately 10.3% as compared with approximately HK$6,951.1 million for the corresponding period in 2015, which was mainly attributable to the continual transformation of the Group's business model, optimisation and integration of the Group's business;

- Gross profit for the year ended 31 December 2016 was approximately HK$2,111.5 million, increased by approximately 3.0% as compared with approximately HK$2,050.2 million for the corresponding period in 2015;

  Gross profit margin of approximately 33.8% for the year ended 31 December 2016, improved by 4.3% as compared with approximately 29.5% for the corresponding period in 2015, which was mainly attributable to the continual transformation of the Group's business model, optimisation and integration of the Group's business, while benefiting from general foreign exchange rates fluctuation and efficiency improvement in our production and supply chain; and

- Profit for the year ended 31 December 2016 was approximately HK$212.2 million, increased by approximately 4.7% as compared with approximately HK$202.7 million for the corresponding period in 2015, which translated to a net margin of approximately 3.4% for the year ended 31 December 2016 as compared with approximately 2.9% for the corresponding period in 2015.

	For the year ended 31 December 2016 (*HK$ million*)	% of revenue	For the year ended 31 December 2015 (*HK$ million*)	% of revenue	Growth rate
Revenue	6,238.2	100.0	6,951.1	100.0	-10.3%
Gross profit	2,111.5	33.8	2,050.2	29.5	3.0%
Operating profit(1)	213.6	3.4	317.6	4.6	-32.7%
Profit for the year	212.2	3.4	202.7	2.9	4.7%
Non-GAAP operating profit(2)	342.7	5.5	340.7	4.9	0.6%
Non-GAAP profit for the year (2)	221.3	3.5	223.2	3.2	-0.9%

The board (the "**Board**") of directors (the "**Directors**") of Goodbaby International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as below.

(1) Operating profit represents the total sum of gross profit, other income and gains, selling and distribution expenses, administrative expenses and other expenses.

(2) In 2016, we adopted the new presentation of non-GAAP financial measures in order to more clearly illustrate our financial results, and to be more consistent with what we believe to be the industry practice. Comparative figures have been adjusted to conform to the new presentation. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies. See "Non-GAAP Financial Measures" for details.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** *(HK$'000)*	**2015** *(HK$'000)*
Revenue	4	6,238,179	6,951,131
Cost of sales		(4,126,715)	(4,900,919)
Gross profit		2,111,464	2,050,212
Other income and gains	4	59,101	94,881
Selling and distribution expenses		(982,468)	(1,030,382)
Administrative expenses		(924,260)	(794,064)
Other expenses		(50,199)	(3,062)
Finance income	5	3,347	7,246
Finance costs	6	(55,166)	(60,466)
Share of gains/(losses) of a joint venture		26	(30)
Share of losses of an associate		—	(8)
PROFIT BEFORE TAX	7	161,845	264,327
Income tax credit/(expense)	8	50,395	(61,655)
PROFIT FOR THE YEAR		212,240	202,672
Attributable to:			
Owners of the parent		207,390	197,434
Non-controlling interests		4,850	5,238
		212,240	202,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	10		
Basic			
For profit for the year (HK$)		0.19	0.18
Diluted			
For profit for the year (HK$)		0.19	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2016

	2016 *(HK$'000)*	2015 *(HK$'000)*
PROFIT FOR THE YEAR	212,240	202,672
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(113,144)	(129,390)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(113,144)	(129,390)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	4,345	325
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	4,345	325
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(108,799)	(129,065)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	103,441	73,607
Attributable to:		
Owners of the parent	100,348	69,340
Non-controlling interests	3,093	4,267
	103,441	73,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

	Notes	**31 December 2016** *(HK$'000)*	**31 December 2015** *(HK$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		858,194	878,769
Prepaid land lease payments		53,895	59,608
Goodwill		811,662	819,619
Other intangible assets		655,866	682,256
Investment in a joint venture		814	844
Deferred tax assets		130,880	43,092
Other long-term assets		7,845	3,637
Total non-current assets		2,519,156	2,487,825
CURRENT ASSETS			
Inventories	11	1,099,846	1,244,756
Trade and notes receivables	12	644,440	695,599
Prepayments and other receivables		187,381	143,629
Due from related parties		284,395	303,758
Available-for-sale investments	13	—	310,347
Cash and cash equivalents		758,153	705,291
Time deposits		—	2,726
Pledged time deposits		25,367	27,199
Derivative financial instruments		—	421
Total current assets		2,999,582	3,433,726
CURRENT LIABILITIES			
Trade and bills payables	14	926,464	941,205
Other payables, advances from customers and accruals		557,925	463,929
Interest-bearing bank loans and other borrowings	15	278,236	691,700
Income tax payable		28,307	68,205
Provision		63,928	37,353
Defined benefit plan liabilities		388	465
Dividends payable		8	8
Total current liabilities		1,855,256	2,202,865
NET CURRENT ASSETS		1,144,326	1,230,861
TOTAL ASSETS LESS CURRENT LIABILITIES		3,663,482	3,718,686

	Note	31 December 2016 (HK$'000)	31 December 2015 (HK$'000)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	15	950,521	1,005,918
Provision		63,708	78,732
Defined benefit plan liabilities		12,717	14,216
Other liabilities		12,475	10,577
Deferred tax liabilities		145,899	201,141
Total non-current liabilities		1,185,320	1,310,584
Net assets		2,478,162	2,408,102
EQUITY			
Equity attributable to owners of the parent			
Share capital		11,151	11,086
Reserves		2,429,129	2,354,172
		2,440,280	2,365,258
Non-controlling interests		37,882	42,844
Total equity		2,478,162	2,408,102

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION

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

The Group is principally engaged in the manufacture and distribution of products for children.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for call and put options over non-controlling interests, derivative financial instruments and available-for-sale investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

The adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	Financial Instruments[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in *Annual Improvements 2014 - 2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 included in *Annual Improvements 2014 - 2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IFRS 28 included in *Annual Improvements 2014 - 2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group is in the process of assessment on the impact of the adoption of IFRS 15.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to re-measure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

3. OPERATING SEGMENT INFORMATION

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

(a) 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) Car seats and accessories segment, which engages in the research, design, manufacturing and selling of car seats and accessories under the Group's own brands and third parties' brands; and

(c) Other durable juvenile products segment, which engages in the research, design, manufacturing and selling of cribs and accessories and other children's products under the Group's own brands and third parties' brands.

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

Year ended 31 December 2016

	Strollers and accessories (HK$'000)	Car seats and accessories (HK$'000)	Other durable juvenile products (HK$'000)	Consolidated (HK$'000)
Segment revenue				
Sales to external customers	1,927,318	2,613,735	1,697,126	6,238,179
Segment results	628,317	1,080,972	402,175	2,111,464
Reconciliation:				
Other income				59,101
Corporate and other unallocated expenses				(1,906,728)
Other expenses				(50,199)
Finance income				3,347
Finance costs				(55,166)
Share of gains of a joint venture				26
Profit before tax				161,845
Other segment information:				
Impairment losses recognised in the statement of profit or loss	13,924	8,824	12,377	35,125
Depreciation and amortisation	82,070	65,197	51,473	198,740

Year ended 31 December 2015

	Strollers and accessories	Car seats and accessories	Other durable juvenile products	Consolidated
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Segment revenue				
Sales to external customers	2,041,009	2,831,584	2,078,538	6,951,131
Segment results	567,780	1,052,235	430,197	2,050,212
Reconciliation:				
Other income				94,881
Corporate and other unallocated expenses				(1,824,446)
Other expenses				(3,062)
Finance income				7,246
Finance costs				(60,466)
Share of losses of a joint venture				(30)
Share of losses of an associate				(8)
Profit before tax				264,327
Other segment information:				
Impairment losses recognised in the statement of profit or loss	10,744	6,319	10,385	27,448
Depreciation and amortisation	84,268	56,527	54,645	195,440

Geographical information

(a) **Revenue from external customers**

	European market *(HK$'000)*	North America market *(HK$'000)*	Mainland China market *(HK$'000)*	Other overseas markets *(HK$'000)*	Total *(HK$'000)*
Year ended 31 December 2016					
Segment revenue:					
Sales to external customers	1,843,560	2,660,328	1,155,305	578,986	6,238,179
Year ended 31 December 2015					
Segment revenue:					
Sales to external customers	2,146,621	2,804,809	1,347,719	651,982	6,951,131

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

(b) **Non-current assets**

	2016 *(HK$'000)*	**2015** *(HK$'000)*
Mainland China	624,385	720,042
North America	1,026,222	1,010,355
Europe	732,321	710,699
	2,382,928	2,441,096

The non-current asset information above are based on the locations of the assets excluding financial instruments and deferred tax assets.

Information about a major customer

Details of revenue from sales to a major customer of 3rd party accounting for 10% or more of the total net sales of the Group are as followings, except a related party.

	2016	2015
	(HK$'000)	*(HK$'000)*
Revenue	738,414	—

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

4. REVENUE, OTHER INCOME AND GAINS

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

	2016	2015
	(HK$'000)	*(HK$'000)*
Revenue:		
Sales of goods	6,238,179	6,951,131
Other income and gains:		
Government grants (note (a))	16,916	35,629
Gain on sale of materials	1,167	1,092
Gain on wealth investment products (note (b))	5,879	3,242
Compensation income (note (c))	4,177	2,430
Service fee income (note (d))	1,095	545
Foreign exchange differences, net	27,827	39,442
Net fair value gains on derivative instruments not qualifying as hedges	923	426
Net fair value gains on call and put option of acquisition of a subsidiary	—	7,315
Others	1,117	4,760
Total	59,101	94,881

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

Note (b): The amount represents the gain on disposal of 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, early payment 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.

5. FINANCE INCOME

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Interest income on bank deposits	3,347	7,246

6. FINANCE COSTS

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Interest on bank loans	55,166	60,466

7. PROFIT BEFORE TAX

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

	2016 *(HK$'000)*	**2015** *(HK$'000)*
Cost of inventories sold	4,126,715	4,900,919
Cost of services provided	848	805
Depreciation of items of property, plant and equipment	175,001	173,842
Amortisation of intangible assets	21,643	19,370
Amortisation of land lease payments	2,096	2,228
Research and development costs ("R&D")	308,814	312,479
Lease payments under operating leases in respect of properties	92,618	83,200
Auditors' remuneration	8,403	8,384
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	1,330,304	1,260,457
Pension scheme contributions	57,879	35,780
Pension scheme costs (defined benefit plans)(including administrative expense)	1,994	2,078
Share option expense	16,507	12,714
	1,406,684	1,311,029
Transaction costs for acquisitions of subsidiaries	—	988
Net foreign exchange gain	(27,827)	(39,442)
Impairment of trade receivables	8,076	—
Impairment of property, plant and equipment	6,797	—
Write-down of inventories	20,252	28,092
Product warranties and liabilities	41,419	33,031
Reversal of impairment of receivables	—	(644)
Net fair value gains on derivative instruments not qualifying as hedges	(923)	(426)
Loss on disposal of items of property, plant and equipment	22,991	2,465
Bank interest income	(3,347)	(7,246)

8. 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 subsidiaries in the United States have been provided for at rates of state income tax and federal income tax on the estimated assessable profits of the subsidiaries during the year. The state income tax rates are 5% and 9.99% in the respective states where the subsidiary operates, and the federal income tax rates range from 34% to 35% 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 10% to 25.5% on a progressive basis.

The Group's subsidiaries registered in Germany are subject to income tax based on the taxable income at the rate of 30%.

The Group's subsidiary registered in Denmark is subject to income tax based on the taxable income at the rate of 24.5%.

The Group's subsidiary registered in Czech Republic is subject to income tax based on the taxable income at the rate of 19%.

All of the Group's subsidiaries registered in the People's Republic of China (the "PRC"), which only have operations in Mainland China, are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws, at the rate of 25%.

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") is qualified as a "High and New Technology Enterprise" and is entitled to a preferential tax rate of 15% from 2014 to 2016.

The major components of income tax (credit)/ expense of the Group are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Current-income tax		
Charge for the year	89,064	94,151
Under provision in prior years	122	279
Deferred income tax	(139,581)	(32,775)
Income tax (credit)/expense reported in the statement of profit or loss	(50,395)	61,655

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

	2016 *(HK$'000)*	2015 *(HK$'000)*
Profit before tax	161,845	264,327
Expected income tax based on different rates applicable to profits in the countries covered	47,539	67,443
Temporary difference for which deferred tax assets have not been recognised	18,102	40,547
Recognition of deferred tax previously unrecognised deductible temporary differences and tax losses	(104,023)	—
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(8,783)	(15,869)
Under provision in prior years	122	279
Tax loss utilised from prior years	(3,835)	(38,492)
Tax effect on non-deductible expenses	483	7,747
Income tax (credit)/expense	(50,395)	61,655

9. DIVIDENDS

	2016 *(HK$'000)*	2015 *(HK$'000)*
Final dividend proposed subsequent to the reporting period —HK$0.05 (2015: HK$0.05)	55,759	55,430

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the 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 1,112,749,000 in issue during the year (2015: 1,104,079,000).

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of earnings per share is based on:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	207,390	197,434

	2016	**2015**
	('000)	*('000)*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,112,749	1,104,079
Effect of dilution - weighted average number of ordinary shares:		
Share options	5,144	4,936
Total	1,117,893	1,109,015

11. INVENTORIES

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Raw materials	309,450	355,458
Work in progress	55,664	108,014
Finished goods	734,732	781,284
	1,099,846	1,244,756

12. TRADE AND NOTES RECEIVABLES

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Trade receivables	646,027	699,039
Notes receivable	7,373	2,507
	653,400	701,546
Impairment of the trade receivables	(8,960)	(5,947)
	644,440	695,599

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 net of provision, is as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Within 3 months	597,198	647,127
3 to 6 months	31,460	24,243
6 months to 1 year	4,686	21,204
Over 1 year	3,723	518
	637,067	693,092

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

	2016	2015
	(HK$'000)	*(HK$'000)*
At beginning of year	5,947	7,866
Recognition of impairment for the year	8,076	—
Reversal of impairment	—	(644)
Amounts written off	(4,606)	(749)
Translation adjustments	(457)	526
At end of year	8,960	5,947

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$8,960,000 (2015: HK$5,947,000) with a carrying amount before provision of HK$12,847,000 (2015: HK$5,947,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

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

	2016	2015
	(HK$'000)	*(HK$'000)*
Neither past due nor impaired	518,450	560,959
Less than 1 month past due	92,685	90,848
1 to 2 months past due	9,574	10,440
2 to 3 months past due	7,395	17,139
Over 3 months and within 1 year past due	8,962	13,706
At end of year	637,067	693,092

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were 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.

13. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	(HK$'000)	*(HK$'000)*
Unlisted investments, at fair value	—	310,347

14. TRADE AND BILLS PAYABLES

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

	2016	2015
	(HK$'000)	*(HK$'000)*
Within 3 months	798,734	806,951
3 to 12 months	110,322	128,378
1 to 2 years	13,300	3,466
2 to 3 years	1,740	897
Over 3 years	2,368	1,513
	926,464	941,205

The trade and bills payables are non-interest-bearing and normally settled on terms of 60 to 90 days.

15. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2016		As at 31 December 2015	
		Maturity	*HK$'000*	*Maturity*	*HK$'000*
Current					
Bank overdraft - secured	Note (a)	2017	189,782		—
Current portion of long-term bank loans - secured	Note (b)	2017	48,862	2016	29,959
Bank borrowings - secured	Note (b)	2017	38,770	2016	660,211
Promissory note	Note (c)	2017	822		—
Bank borrowings - unsecured			—	2016	895
Current portion of long-term bank loans - unsecured			—	2016	635
			278,236		691,700
Non-current					
Bank borrowings - secured	Note(b)	2018-2021	948,040	2017-2021	1,002,805
Promissory note	Note(c)	2021	2,481	2021	3,113
			950,521		1,005,918
Total			1,228,757		1,697,618

Note (a): The bank overdraft facilities amounted to HK$208,217,000, of which HK$189,782,000 had been utilised as at the end of the reporting period, and was guaranteed by the Company. The bank overdraft facilities are revolving facilities with no termination date.

Note (b): Certain of the Group's bank loans are secured by:

(i) corporate guarantees by the Company and a subsidiary of the Group;

(ii) the pledge of shares in Columbus Holding GmbH and Cybex GmbH which are subsidiaries of the Group; and

(iii) a standby letter of credit from the Bank of China Suzhou Branch issued by GCPC.

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

Note (d): the effective interest rates of bank loans and other borrowings range from 1.25% to 6% (2015: 1.02% to 6%).

	2016	2015
	(HK$'000)	*(HK$'000)*
Analysed into:		
Bank loans repayable:		
Within one year	278,236	691,700
In the second year	225,832	49,413
In the third year to fifth year, inclusive	572,646	651,930
Beyond the fifth year	152,043	304,575
	1,228,757	1,697,618

16. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes 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-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 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.

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 during the year:

	Weighted average exercise price	**Number of options**
	HK$ per share	*'000*
At 1 January 2015	3.148	75,857
Granted during the year	3.750	25,850
Forfeited during the year	3.488	(10,691)
Exercised during the year	2.120	(3,087)
At 31 December 2015 and 1 January 2016	3.320	87,929
Granted during the year	3.870	5,000
Forfeited during the year	3.592	(11,438)
Exercised during the year	2.120	(6,531)
At 31 December 2016		74,960

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.42 per share (2015: HK$3.26).

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

2016	Number of options	Exercise price	Exercise period
	'000	*HK$ per share*	
	218	2.12	3 January 2014 to 2 January 2018
	3,822	2.12	3 January 2015 to 2 January 2018
	3,822	2.12	3 January 2016 to 2 January 2018
	3,948	2.12	3 January 2017 to 2 January 2018
	11,627	3.58	29 September 2017 to 28 September 2024
	12,747	3.58	29 September 2018 to 28 September 2024
	11,626	3.58	29 September 2019 to 28 September 2024
	7,383	3.75	7 October 2018 to 6 October 2028
	7,383	3.75	7 October 2019 to 6 October 2028
	7,384	3.75	7 October 2020 to 6 October 2028
	1,667	3.87	30 August 2017 to 29 August 2023
	3,333	3.87	30 August 2018 to 29 August 2023
	74,960		

2015	Number of options	Exercise price	Exercise period
	'000	*HK$ per share*	
	384	2.12	3 January 2014 to 2 January 2018
	4,020	2.12	3 January 2015 to 2 January 2018
	7,060	2.12	3 January 2016 to 2 January 2018
	7,214	2.12	3 January 2017 to 2 January 2018
	11,160	3.58	29 September 2017 to 28 September 2024
	19,080	3.58	29 September 2018 to 28 September 2024
	13,160	3.58	29 September 2019 to 28 September 2024
	8,617	3.75	7 October 2018 to 6 October 2028
	8,617	3.75	7 October 2019 to 6 October 2028
	8,617	3.75	7 October 2020 to 6 October 2028
	87,929		

The Group recognised a share option expense of HK$16,507,000 (2015: HK$12,714,000) for the year ended 31 December 2016.

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

	Share options granted on 3 January 2012	Share options granted on 29 September 2014	Share options granted on 7 October 2015	Share options granted on 30 August 2016
Dividend yield (%)	2.00	1.61	1.28	1.79
Spot stock price (HK$ per share)	2.12	3.40	3.75	3.87
Historical volatility (%)	52.00	38.40	37.78	35.55
Risk-free interest rate (%)	1.11	2.05	1.60	0.82
Expected life of options (year)	6	10	10	7
Weighted average share price (HK$ per share)	2.12	3.58	3.68	3.87

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 6,531,000 share options exercised during the year resulted in the issue of 6,531,000 ordinary shares of the Company and new share capital of HK$65,310 and share premium of HK$19,447,000 (before issue expenses).

At the end of the reporting period, the Company had 74,959,500 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 74,959,500 additional ordinary shares of the Company and additional share capital of HK$749,595.5, and share premium of HK$255,600,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 74,959,500 share options outstanding under the Scheme, which represented approximately 6.72% of the Company’s shares in issue as at that date.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Highlight of the year 2016:

- We made a record year for profit and profitability even though we invested in transformation and creation of platform

- We executed our brand and channel strategy successfully

- We completed integration of our regional organization

- We successfully set up a proper management platform in place to drive and support rapid and sustainable global growth

- We completed restructure of our China market and successfully turn round our revenue from China market into fast growth trend

- We set up our digital division and have key management structure in place effectively

Following the rapid growth of our Cybex brand and the turnaround of our Evenflo brand, we continued to polish our brand-driven, one-dragon, vertically integrated business model through 2016, to ensure sustainable growth. During the year, in addition to day-to-day business and operation management, we made bold decisions to:

1. Strengthen and optimise organisational structure and leadership

2. Comprehensively review, integrate and optimise our brands and business lines

3. Fully integrate regional organisations and operations in Europe, US and China

4. Invest in digital technology

These decisions, as anticipated, resulted in the loss of certain revenue streams and increases in operating expenses, which negatively impacted our short-term financial performance. However, through these initiatives, we now have more concentrated brand and business portfolios, more focused resource allocation and substantive improvements in organisation and leadership, laying a solid foundation for future profitable and sustainable growth. We recorded revenue of approximately HK$6,238.2 million in 2016, representing an approximately 10.3% reduction from the prior year. We significantly improved our gross margin from 29.5% in 2015 to 33.8% in 2016, through our continual evolution into a brand-driven company. Our non-GAAP operating profit amounted to HK$342.7 million in 2016, representing 0.6% year-on-year increase from 2015. Our non-GAAP operating profit margin increased by 59 basis points to 5.5%. Our 2016 net income of approximately HK$212.2 million increased by approximately 4.7% over the previous year.

Executive summary

Business developments

In 2016, while continuing to strengthen our business with blue-chip clients, we concentrated our resources on our strategic brands Cybex, gb, Evenflo and Rollplay, along with key tactical brands Happy Dino, CBX and Urbini, as well as retailers' private labels. We completed a thorough review of our brands and business lines, and conducted comprehensive optimisation and integration initiatives. These included terminating a licensed manufacturing and distribution partnership with a European brand, discontinuing our goodbaby brand, optimising our business under the Evenflo brand to further enhance profitability, integrating our Geoby brand business into Evenflo and closing a wooden OEM business and production facility located in China.

Our own brand and private label businesses

We began seeing the effects of this new brand-focused business strategy in the second half of 2016. While we experienced a 7.2% overall revenue year-on-year decrease in the first half of the year, the second half of the year saw only a 0.3% year-on-year decrease even though we have experienced certain decrease in revenue streams due to continual brand integration and business discontinuation. Consequently, full-year revenue reduced by 3.9% from approximately HK$5,214.8 million in 2015, to HK$5,011.3 million in 2016.

- Region APAC

In the China market, our new leadership team began implementing a new strategic plan. As a result, growth returned in the second half of the year , with a rate of 2.9% growth on year-on-year base, following an approximate 24.7% reduction in revenue in the first half of the year. Consequently, full-year year-on-year decline narrowed to only 14.9%, with revenue of approximately HK$ 1,156.6 million recorded in 2016. Whilst the Happy Dino brand declined, we turned around our gb Silver line, saw double-digit growth in the second half of the year and doubled our revenue from our gb Platinum line and Cybex brand. Our new leadership team business strategy is on track to support this rapid growth.

Outside China, after we have consolidated our brand portfolios and solidified our management team, we recorded a year-on-year increase of 17.2% in the second half of 2016 from approximately HK$318.0 million in 2015 to HK$372.7 million in 2016, following a decrease of 10.4% in the first half of 2016. As a result, full-year revenue increased from approximately HK$566.7 million in 2015 to approximately HK$595.5 million in 2016, representing an increase of 5.1%.

- Region EMEA

Following a nearly 90% revenue growth in EUR in 2015, it became necessary to quickly expand the organisation in EMEA to support future growth. Furthermore, we appointed Mr. Johannes Schlamminger to succeed Mr. Martin Pos as CEO brand Cybex and gb when Mr. Martin Pos stepped up to Group CEO at the beginning of 2016. After a year of development, we are able to proudly announce that we successfully overcame the challenges that normally come with such rapid growth and succession. EMEA business management organisation successfully completed its rapid expansion and process optimisation along with succession of leadership. We now have a strong organisation and team supporting this rapid growth.

Our Cybex brand business saw stable development in 2016, while our newly-launched gb Platinum and gb Gold lines were well-received and recorded strong performance. Our revenue continued to grow, increased by 9.5% from approximately HK$1,258.1 million in 2015, to approximately HK$1,377.1 million in 2016.

- Region Americas

Throughout 2016, we continued investing in key initiatives for profitable and sustainable long-term growth. We merged Goodbaby and Evenflo operations into one Goodbaby North American unit, and further rationalised our business portfolio. As a result, revenue generated in Americas recorded a 7.3% reduction from approximately HK$2,031.0 million in 2015 to approximately HK$1,882.1 million in 2016. During the year, we improved Evenflo profitability by optimising the Evenflo product line, investing in product development and launching new marketing campaigns to lay a solid foundation for the brand's sustainable growth. As a result, gross margin improved from 22.9% in 2015 to 25.9% in 2016, and operating profit margin increased from 3.2% in 2015 to 5.8% in 2016. As expected, the execution of the above strategy resulted in reduction of 6.4% in revenue from Evenflo brand from 2015 to approximately HK$1,680.8 million in 2016.

We recruited Mr. Jon Chamberlain as a dedicated Evenflo CEO, starting in January 2017. With his profound industry experience and outstanding achievements in the juvenile category, Mr. Chamberlain is expected to deliver higher levels of performance and further upgrade our product portfolio in Americas. Together with all other efforts made during 2016, we believe we now have a solid foundation for considerable growth of our businesses in the region going forward.

Blue Chip

We focused on supporting key Blue Chip OEM customers, while further optimising our blue chip business with the closure of our OEM wooden production facility in Kunshan, and an ancillary production facility in Hanchuan. Our business relationships with key Blue Chip customers remain stable, and we will continue close communication and cooperation with these customers going forward. Primarily driven by declines in our largest Blue Chip customer, Blue Chip revenue fell as anticipated by approximately 29.3%, from approximately HK$1,736.3 million in 2015 to approximately HK$1,226.9 million in 2016.

Innovation and technology

As one of the world's leading juvenile products companies, we take great pride in merging world-class product design with outstanding research and development ("R&D"). We provide solutions for the modern family by engineering outstanding products with iconic aesthetics. With seven R&D centres worldwide and more than 450 employees, our R&D team is highly agile. We obtained 455 patents in 2016, and by the end of 2016, we historically obtained more than 7,600 patents in total.

To enhance our technical organisation efficiency and synergies across the regions, we combined the functions of Group Technical Services and Technologies Brands into one integrated function, called Group Technologies.

Our independent testing centre established microbiological, environmental, clothing and other testing projects and, in accordance with the chemical control requirements for our premium products, we successfully developed 287 new testing items. In 2016, we led and participated in setting or revising 21 international and 27 national standards, and received the China Standards Innovation and Contribution Award. The Company has been approved by the International Organization for Standardization (ISO) to set up the Co-Secretariat for the ISO / PC 310 Wheeled Child Conveyances. We successfully developed the EU child safety seat ECE R129 side collision technology and obtained approval from Technische Überwachungsverrein, becoming the only ECE R129 certified laboratory.

For product development and design, we received 3 Red Dot Awards, 1 iF Design Award and 1 China Industrial Design Gold Award for our designs in 2016. At the end of 2016, we held 19 Red Dot International Design Awards, 2 iF Design Awards, 2 China Excellent Industrial Design Rewards, 1 Guinness World Record and 1 China Industrial Design Gold Award.

Production and supply chain

To create a world-class manufacturing organisation, we created the Goodbaby Excellence System, inspired by the well-known Toyota Production System. Our short-term focus is on managing labour and raw material costs, through automation targeting to reduce labour on the most repetitive activities, and optimising our supply base respectively. We implemented a value analysis/value engineering programme to provide product features at the lowest cost. This included the training of all key managers on the use of Lean Production Tools.

In 2016, we established our supply chain as a separate group function and are integrating our regional supply chains into it, accumulating and sharing expertise and creating long-term efficiency. A new tender management team was established and has already created synergies for logistic expenditures. A new global project procurement function is improving our brands' project management, commodity procurement and R&D functions. In addition, we kicked off a standardisation programme and established global key material groups to drive efficiency, improve negotiation power and streamline our suppliers.

Going forward, we are looking to reshape our logistics and planning from an experience-based model to a fully-integrated planning and execution model. This is anticipated to create tremendous synergies, and our simulations show an improvement in production changeover. We will also further implement the standardisation programme and enhance the skillsets of our team members, along with employment of IT Tools like supplier and customer relationship management, and logistic tracking and handling.

Organisation

During the year, we substantially enhanced our leadership team. To continue the Group's focus on entrepreneurship and strong leadership, Mr. Martin Pos, succeeded Mr. Song Zhenghuan as CEO of the Group. Mr. Johannes Schlamminger was promoted to CEO of Cybex and gb Brands, taking over responsibility from Mr. Martin Pos, along with our private label business in EMEA. Mr. Franki Tse was appointed as CEO China. Mr. Kim Zhao was promoted as CEO Rollplay under leadership of Mr. Michael Qu, executive director of the group. In late-2016 and early-2017, we further strengthened our team by adding Mr. Mark Zehfuss as CEO National Distribution Americas and Mr. Jon Chamberlain as CEO Evenflo. We now have leadership in place for all key group functions, brand business units and national distributions, positioning us to grow our business to the next levels.

We also conducted regional function integrations, merging Cybex and Evenflo's purchasing teams in China into our APAC procurement team. We consolidated and optimised R&D centres, reducing the total number of centres to seven. In the United States, we merged our organisations in Boston and Ohio into a single unit to lead and serve Americas' businesses.

We introduced a multi-continental and inter-cultural Triangular Management System, with a central vision, strategy and standard supporting decentralised execution in each region and Business Unit. The Business Unit leaders have full executional and operational responsibility for their areas. The Group also introduced Regional Chairmen as ambassadors of the Group's mission and cultural values, and mentors for future leaders.

We further introduced a Global Exchange Program where employees are encouraged to gain international and cross-functional work experience. The program enables our employees to develop an understanding of business ethics and experience working in their region of choice. It expands their network within the company and positively influences their personal and professional development. The Global Exchange Program is the first stage of a campus concept we're creating to educate young engineers, designers and other experts within the company.

Investment in digital

In 2016, we assembled a strong digital team to create new online initiatives. Mr. Jan Rezab was appointed as Executive Director and CEO Digital Technologies of the Group. With his exceptional vision and technological knowledge, Jan is responsible for the digital arm of our BOOM strategy, which integrates branding with the online-to-offline business model and leverages mobile devices. An experienced team of developers, analysts and a lead engineer was brought onboard to support these initiatives. Our Digital strategy has three missions: big data analysis; engagement with our fans; and integrating digital technology into product development.

Outlook

Throughout our relentless efforts in the continual transformation of the Group's business model, optimisation and integration of the Group's business we have successfully built a solid foundation in 2016, we are confident that we can further achieve revenue improvement through the continued expansion of own brands, creating new product categories in all regions, establishing new sales channels, leveraging our innovation capabilities and connecting directly with more consumers. We plan on delivering sustainable margin growth by continued efforts to build our brands, improve our revenue mix and supply chain efficiency, implement lean manufacturing, integrate and optimise the efficiency of our supply chain while minimising operating expenses by integrating operations across continents and departments.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the total revenue of the Group decreased by 10.3% from approximately HK$6,951.1 million for the year ended 31 December 2015 to approximately HK$6,238.2 million.

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

	For the year ended 31 December				Growth analysis 2016 vs 2015
	2016		2015		2015
	Sales (HK$ million)	*% of sales*	*Sales (HK$ million)*	*% of sales*	*Growth*
Our own brand and retailer's private label	5,011.3	80.3	5,214.8	75.0	-3.9%
EMEA	1,377.1	22.0	1,258.1	18.1	9.5%
Americas	1,882.1	30.2	2,031.0	29.2	-7.3%
APAC	1,752.1	28.1	1,925.7	27.7	-9.0%
Blue-Chip Business	1,226.9	19.7	1,736.3	25.0	-29.3%
Total	6,238.2	100.0%	6,951.1	100.0%	-10.3%

The decrease of the Group's own brand and retailer's private label business was primarily attributable to the decrease in China market following the implementation of the Group's new branding and channelling strategy in China market and the optimisation of business line mixture in Americas for better profitability. The decrease in China market was substantially due to the decrease of sales in Happy Dino brand. We turned around the China market from 24.7% decrease in the first half of 2016 to 2.9% growth in the second half of 2016.

The decrease of Blue-Chip Business was mainly due to the expected decrease of sales from the largest Blue-Chip customer due to the transformation of the Group's business model from OPM to brand-driven and the optimisation actions to phase out certain no profitability businesses.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales decreased by approximately 15.8% from HK$4,900.9 million for the year ended 31 December 2015 to HK$4,126.7 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in sales volume, the foreign exchange rates fluctuation and the Group's continuous implementation of cost saving and efficiency improvement.

As a result of the foregoing, gross profit for the Group increased from approximately HK$2,050.2 million for the year ended 31 December 2015 to approximately HK$2,111.5 million for the year ended 31 December 2016, and the gross profit margin improved by approximately 4.3% from approximately 29.5% for the year ended 31 December 2015 to approximately 33.8% for the year ended 31 December 2016.

Other Income and Gains

Other income and gains of the Group decreased by HK$35.8 million from approximately HK$94.9 million for the year ended 31 December 2015 to approximately HK$59.1 million for the year ended 31 December 2016. Other income mainly consists of government subsidies, gain on wealth investment products and foreign exchange gains. The decrease was mainly attributable to the decrease in government subsidies and foreign exchange gains.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution expenses decreased from approximately HK$1,030.4 million for the year ended 31 December 2015 to approximately HK$982.5 million for the year ended 31 December 2016, which was mainly attributable due to the decrease in transportation costs and other expenses.

Administrative Expenses

The Group's administrative expenses primarily consist of salaries, research and development costs and office expenses. The administrative expenses increased from approximately HK$794.1 million for the year ended 31 December 2015 to approximately HK$924.3 million for the year ended 31 December 2016. The increase was mainly due to relevant cost relating to the discontinuation and integration, and the increase in employee cost.

Other Expenses

Other expenses of the Group increased to approximately HK$50.2 million for the year ended 31 December 2016 from approximately HK$3.1 million for the year ended 31 December 2015. The increase was mainly due to the disposal losses resulted from the discontinuation of our non-strategic and unprofitable businesses.

Operating Profit

As a result of the foregoing, the Group's operating profit decreased by approximately 32.7%, or HK$104.0 million, from approximately HK$317.6 million for the year ended 31 December 2015 to approximately HK$213.6 million for the year ended 31 December 2016. The Group's non-GAAP operating profit increased by approximately 0.6%, or HK$2.0 million, from approximately HK$340.7 million for the year ended 31 December 2015 to approximately HK$342.7 million for the year ended 31 December 2016.

Finance Income

For the year ended 31 December 2016, the Group's finance income decreased by approximately 54.2%, or HK$3.9 million, from approximately HK$7.2 million for the year ended 31 December 2015 to approximately HK$3.3 million. The Group's finance income mainly represents interest income from bank deposits.

Finance Costs

For the year ended 31 December 2016, the Group's finance costs decreased by approximately 8.8%, or HK$5.3 million, from approximately HK$60.5 million for the year ended 31 December 2015 to approximately HK$55.2 million. The decrease for the year ended 31 December 2016 was mainly attributable to the decrease in bank loans and other borrowings.

Profit Before Tax

As a result of the foregoing, the profit before tax of the Group decreased by 38.8% from approximately HK$264.3 million for the year ended 31 December 2015 to approximately HK$161.8 million for the year ended 31 December 2016. The Group's non-GAAP profit before tax increased by approximately 1.2% from approximately HK$287.4 million for the year ended 31 December 2015 to approximately HK$290.9 million for the year ended 31 December 2016.

Income Tax

The Group's income tax credit was approximately HK$50.4 million for the year ended 31 December 2016 whereas income tax expense was approximately HK$61.7

million for the year ended 31 December 2015. The decrease in the amount of income tax expense was mainly attributable to the recognition of deferred tax assets that previously were not recognised by our subsidiaries in the United States.

Profit for the Year

Profit of the Group for the year ended 31 December 2016 increased by 4.7% from approximately HK$202.7 million for the year ended 31 December 2015 to approximately HK$212.2 million. Non-GAAP profit of the Group for the year ended 31 December 2016 decreased by 0.9% from approximately HK$223.2 million for the year ended 31 December 2015 to approximately HK$221.3 million.

Non-GAAP Financial Measures

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

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2016							
		Adjustments						
	As reported	**Net losses on discontinuation of non-strategic operations (a)**	**Integration-related costs (b)**	**Equity-settled share option expenses**	**Net fair value losses on call and put options (c)**	**Amortisation of intangible assets (d)**	**Recognition of deferred tax assets previously not recognized (e)**	**Non-GAAP**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
Operating profit	213.6	59.1	38.1	16.5	0.8	14.6	—	342.7
Profit before tax	161.8	59.1	38.1	16.5	0.8	14.6	—	290.9
Profit for the year	212.2	51.3	33.2	16.5	0.5	11.6	(104.0)	221.3
Operating margin	3.4%							5.5%
Net margin	3.4%							3.5%

	Year ended 31 December 2015					
		Adjustments				
	As reported	**Integration-related costs (b)**	**Equity-settled share option expenses**	**Net fair value gains on call and put options (c)**	**Amortisation of intangible assets (d)**	**Non-GAAP**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
Operating profit	317.6	3.1	12.7	(7.3)	14.6	340.7
Profit befoe tax	264.3	3.1	12.7	(7.3)	14.6	287.4
Profit for the year	202.7	2.5	12.7	(4.6)	9.9	223.2
Operating margin	4.6%					4.9%
Net margin	2.9%					3.2%

Notes:

(a) Net losses on discontinuation of non-strategic and unprofitable operations.

(b) Costs related to integration of our business operations after the acquisitions.

(c) Net fair value gains/losses on call options and put options granted to non-controlling shareholders of a subsidiary of the Group, arising from acquisition of this subsidiary.

(d) Amortisation of intangible assets arising from acquisitions, net of related deferred tax.

(e) Recognition of deferred tax credit in Americas arising from Evenflo reaching sustainable profitability.

Working Capital and Financial Resources

	As at 31 December 2016 *(HK$ million)*	As at 31 December 2015 *(HK$ million)*
Trade and notes receivables (including trade receivables due from related parties)	937.8	1,005.3
Trade and bills payables	926.5	941.2
Inventories	1,099.8	1,244.8
Trade and notes receivables turnover days(1)	57	62
Trade and bills payables turnover days(2)	83	77
Inventories turnover days(3)	104	104

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 bills 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 decrease of trade and note receivables and decrease of trade and notes receivables turnover days were mainly attributable to the increased proportion of the Group's own brand business in revenue and strengthened effort on cash collection.

The decrease of trade and note payables was relatively stable. The increase of trade and notes payables turnover days was mainly due to the improvement in payment terms.

The decrease of inventories was mainly due to the tighter control of inventory level. The inventories turnover days were stabilised in around 104 days.

Liquidity and Financial Resources

As at 31 December 2016, the Group's monetary assets, including cash and cash equivalents, time deposits, pledged time deposits and available-for-sale investments, were approximately HK$783.5 million (31 December 2015: approximately HK$1,045.6 million).

As at 31 December 2016, the Group's interest-bearing bank loans and other borrowings were approximately HK$1,228.8 million (31 December 2015:

approximately HK$1,697.6 million), including short-term bank borrowings of approximately HK$278.2 million (31 December 2015: approximately HK$691.7 million) and long-term bank loans and other borrowings with repayment terms ranging from three to seven years of approximately HK$950.5 million (31 December 2015: HK$1,005.9 million).

As a result, as at 31 December 2016, the Group's net debt position was approximately HK$445.3 million (31 December 2015: approximately HK$652.0 million).

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities (31 December 2015: nil).

Exchange Rate Fluctuations

The Group is a multinational enterprise with operations in different countries and denominated in various currencies, and the Group uses the Hong Kong dollar ("HK$") as its reporting currency, which is linked to U.S. dollar ("US$").

The Group's revenue is mainly denominated in US$, Renminbi ("RMB") and Euro. The Group's procurement and OPEX are mainly denominated in RMB, US$ and Euro. The net exposures to foreign currency risks of the Group's operating results are mainly the US$ and Euro revenue against RMB procurement and OPEX. The Group would benefit from the appreciation of US$ and Euro against RMB but would suffer losses if US$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

Pledge of Assets

As at 31 December 2016, except for the pledged time deposits amounting to HK$25.4 million, the Group did not pledge any other assets.

Gearing Ratio

As at 31 December 2016, the Group's gearing ratio (calculated by net debt divided by the sum of equity attributable to owners of the parent and net debt; the amount of net debt is calculated by the sum of trade and bills payables, other payables, advances from customers and accruals and interest-bearing bank loan and other borrowings (current and non-current) less cash and cash equivalents) was approximately 44.5% (31 December 2015: approximately 50.3%).

Employees and Remuneration Policy

As at 31 December 2016, the Group has a total of 11,181 full-time employees (as at 31 December 2015, the Group had a total of 12,318 full-time employees). For the year ended 31 December 2016, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,386.5 million (2015: HK$1,284.6 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company had adopted a share option scheme ("**Share Option Scheme**") to incentivize or reward eligible participants for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

As at 31 December 2015, 87,928,500 share options were outstanding. On 30 August 2016, 5,000,000 share options were granted under the Share Option Scheme. In 2016, 11,438,000 share options had lapsed and 6,531,000 share options had been exercised. As at 31 December 2016, the outstanding share options were 74,959,500.

OTHER INFORMATION

Annual General Meeting

The annual general meeting of the Company (the "**AGM**") will be held on 25 May 2017 (Thursday). A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

Dividend

At the meeting of the Board held on 28 March 2017, the Board has resolved to declare the payment of a final dividend of HK$0.05 per share for the year ended 31 December 2016 (2015: HK$0.05). Subject to the approval of shareholders of the Company at the AGM, the final dividend will be paid on Monday, 19 June 2017 to the shareholders whose names appear on the register of members of the Company on Wednesday, 7 June 2017. The record date for determining the entitlement to the proposed final dividend is Wednesday, 7 June 2017.

Book Close Periods

For the purposes of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed during the following period:

• Latest time to lodge transfers documents for registration	4:30 p.m. on 18 May 2017 (Thursday)
• Closure of register of members	19 May 2017 (Friday) to 25 May 2017 (Thursday)

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

For determining the entitlement of the proposed final dividend, the register of members of the Company will be closed from Monday, 5 June 2017 to Wednesday, 7 June 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 June 2017.

Corporate Governance

The Board 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 as set out in the Code on Corporate Governance Practices ("**CG Code**") as set out in Appendix 14 to the Listing Rules and has also put in place certain recommended best practices as set out in the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Song Zhenghuan is an executive Director and the chairman of the Company and the founder of the Group. Mr. Song was the chief executive officer ("**CEO**") of the Company before 15 January 2016. On 15 January 2016, Mr. Martin Pos, an executive Director and the deputy CEO of the Company, has succeeded Mr. Song as the CEO of the Company and Mr. Song remains as the chairman of the Board and an executive Director. The Company has established a general division of responsibilities between the chairman and CEO in writing. The Company has complied with code provision A.2.1 of the CG Code since then, as the roles of chairman and chief executive are separated and performed by different individuals.

In this connection, the Board is of the opinion that the Company has complied with all the code provisions set out in the CG Code since 15 January 2016.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2016.

Purchase, Sale and 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 during the year ended 31 December 2016.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange on 24 November 2010, the Board 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 as the code for the dealings in securities transactions by the Directors. Having made specific enquiries with all Directors of the Company, they have confirmed that they complied with the required standard of dealings set out in the Model Code for the year ended 31 December 2016.

Audit Committee

As the date of this announcement, the audit committee of the Company (the "**Audit Committee**") consists of Mr. Iain Ferguson Bruce, Mr. Shi Xiaoguang and Ms. Chiang Yu. The chairman of the Audit Committee is Mr. Iain Ferguson Bruce. The annual results for the year ended 31 December 2016 of the Company have been reviewed by the Audit Committee. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed risk management and internal control with senior management members.

Appreciation

The chairman of the Group would like to take this opportunity to thank his fellow Directors for their invaluable advice and guidance, and to each and every one of the staff of the Group for their hard work and loyalty to the Group.

Publication of Financial Results and Annual Report

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.gbinternational.com.hk). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

By order of the Board
Goodbaby International Holdings Limited
Song Zhenghuan
Chairman

Hong Kong, 28 March 2017

As at the date of this announcement, the executive Directors are Mr. Song Zhenghuan, Mr. Martin Pos, Mr. Liu Tongyou, Mr. Michael Nan Qu, Mr. Wang Haiye and Mr. Jan Rezab; the non-executive Director is Mr. Ho Kwok Yin, Eric; and the independent non-executive Directors are Mr. Iain Ferguson Bruce, Ms. Chiang Yun, Mr. Shi Xiaoguang and Mr. Jin Peng.