Goodbaby International

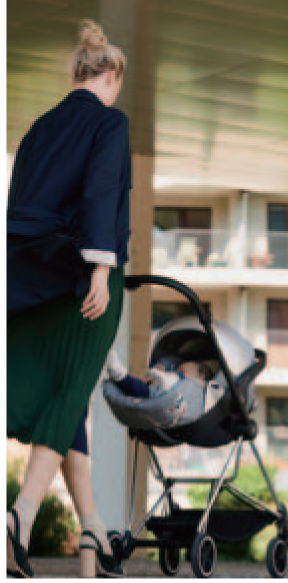
Goodbaby International Holdings Limited
Stock Code 1086

2017 ANNUAL REPORT

Goodbaby
International

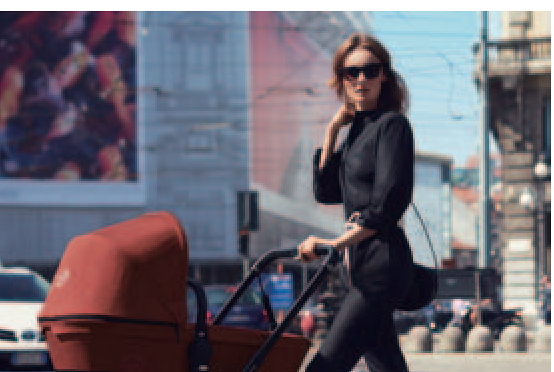
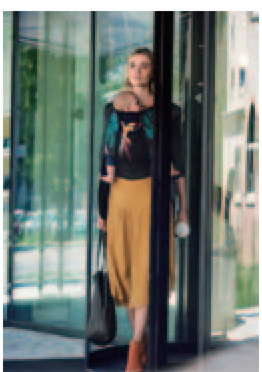
gb cybex evenflo ROLLPLAY

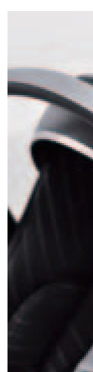





















CONTENT

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Song Zhenghuan *(Chairman)*
Mr. Martin Pos *(Chief Executive Officer)*
Mr. Yang Ilcheul
Mr. Xia Xinyue
Mr. Liu Tongyou
Mr. Michael Nan Qu

NON-EXECUTIVE DIRECTORS

Ms. Fu Jingqiu
Mr. Ho Kwok Yin, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Iain Ferguson Bruce
Mr. Shi Xiaoguang
Ms. Chiang Yun
Mr. Jin Peng

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Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

NOMINATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

REMUNERATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

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COMPANY SECRETARY

Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Ho Siu Pik

PRINCIPAL BANKER

Bank of China, Kunshan Branch

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

With your support our Group has made remarkable achievements in 2017.

I. RAPID DEVELOPMENT OF GLOBAL BRAND MANAGEMENT

All strategic brands have grown steadily around the world, with Cybex and gb seen record rapid growth. Cybex sales reached HK$ 1,754 million, a substantial increase of 39.5% in 2016. Its position in the industry as a premium lifestyle global leader was further consolidated, its influence greatly enhanced, and the number of its facebook fans exceeded one million. Based on pro forma[1] consolidated figures, gb durable products achieved sales revenue of approximately HK$1,583 million, an increase of 24.2% in 2016. gb premium line sales in Europe and America reached approximately HK$258 million--an annual growth rate of 77.7%, marking a successful upgrade of gb brand.

On social media, we see more often that more and more celebrities like Selena Gomez, Justin Bieber, and Ivanka Trump use Cybex and gb products. Our Group has become a world-renowned company.

This rapid development also marks the successful integration of our Group's global sales, research and manufacturing.

II. SIGNIFICANT BREAKTHROUGH IN BUSINESS CATEGORY AND MODEL

In October 2017, the Group completed integration of gb's brands, products, and channel in China and achieved two major transformations: firstly, from a durable goods company to a full-category children's product company, breaking into a greater market; secondly, from a distribution-oriented business model to a retail-oriented full-channel operation model, realizing step up in competitiveness. These transformations laid a solid foundation for the development of a platform, providing full-category, full-channel and global lifestyle solution services.

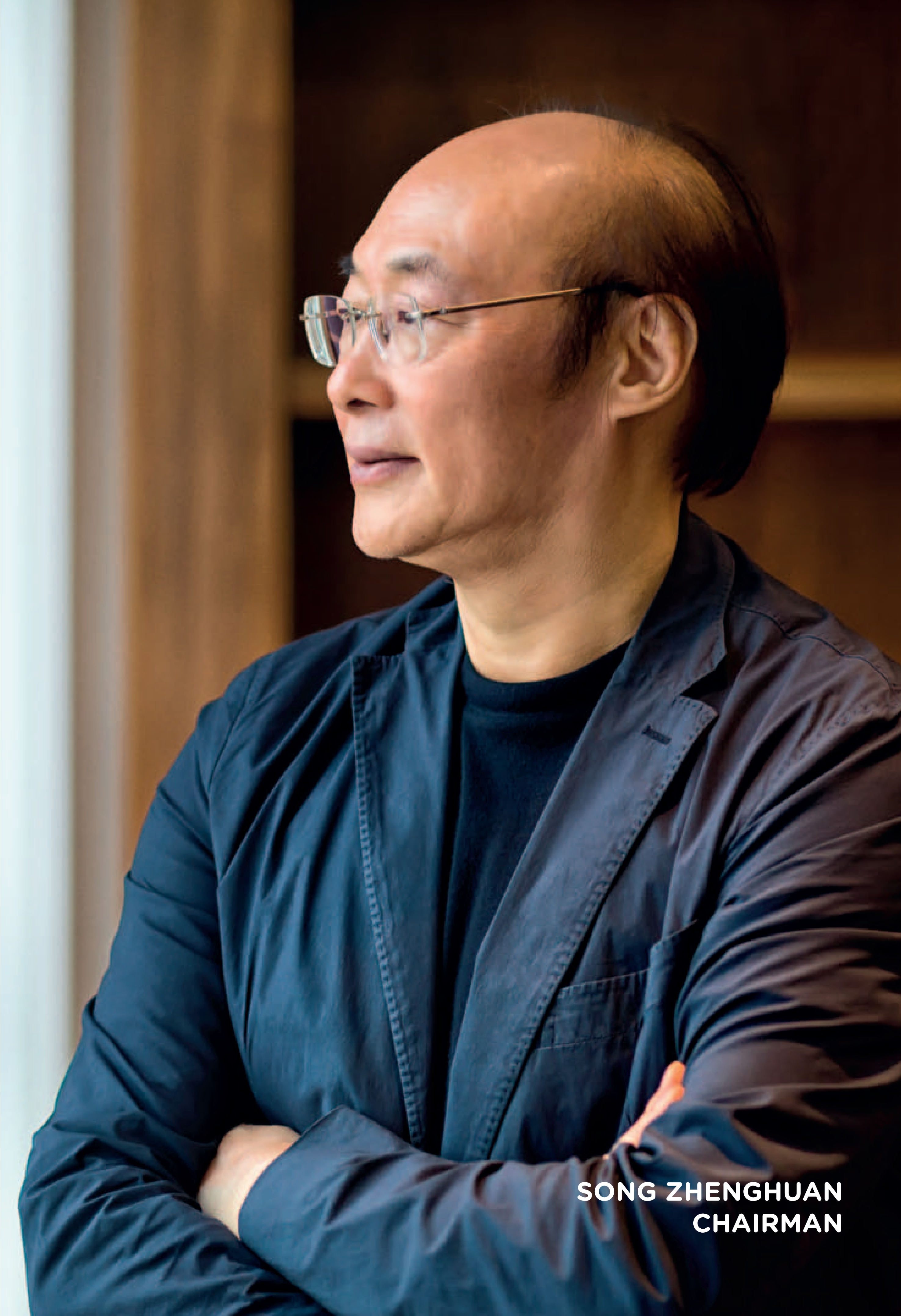
It is note-worthy that according to pro forma consolidated data, the Acquired Business[3] realized a sales revenue of HK$2,742 million in 2017, a year-on-year increase of 21.0%. Revenue from online sales accounted for 46.6%, whilst revenue from online and offline direct retail accounted for 72%.

III. BIG STRIDE IN NEW CHINA RETAIL

The joining of Executive Director Mr. Yang Ilcheul has accelerated the Group's progress in organizational construction and business development in China market.

gb's retail brands fully upgraded; Happy Dino has reborn into HD, a modern cartoon fashion brand; gb and HD retail stores have developed into interactive life service platforms, focusing on customer experience. These stores together built a new system, integrating online and offline retail. Customers highly welcome this change, as can be seen from the much improved business.

1. We presented the pro forma consolidated financial figures for the purpose of illustrating the effect on certain financial figures of the Original Business[2] and Acquired Business[3] as if the Acquisition[4] had been completed on 1 January 2016. The pro forma consolidated financial figures have been prepared for the illustrative purposes only and are based on a number of assumptions, estimates and uncertainties. The pro forma consolidated financial figures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS.
2. Original Business represents the business of the Group excluding the Acquired Business.
3. The Acquired Business refers to the business acquired by the Group through the Acquisition[4].
4. The Acquisition refers to the Group's acquisition of Oasis Dragon Limited which was completed on 23 October 2017 (the "Completion Date").



SONG ZHENGHUAN
CHAIRMAN

IV. THE BIG SUPPLY-CHAIN SYSTEM OPENED A NEW GROUND

Construction of the Group's big supply chain system for research and production services has made considerable progress, especially since Mr. Xia Xinyue served as Executive Director and Chief Competitiveness Officer of the Group, stimulating further the outstanding entrepreneurial spirit which Goodbaby developed over the past 30 years. Level of enthusiasm was high among leaders and staff. Market orientation, stringent management and technological innovation have become common practices. A robust Goodbaby team with ambition, organization and teamwork is taking shape, empowered and motivated by the Group platform.

V. FRUITFUL ACHIEVEMENTS IN INNOVATION, QUALITY AND STANDARD

Innovation, quality and standard, the cornerstones that underpinned the Group's brand management, have achieved abundantly in 2017.

As a trend setter in the industry, Goodbaby continued to be original. In 2017, we have got 473 patents, 2 Red Dot Design Awards and 1 Chinese Patent Award of Excellence 2017（中國專利優秀獎）. Cybex Mios, in particular, has won"Red dot: Best of the Best", the highest Red Dot Design award. We are also proud that Cybex's smart security car seats have won the "The best of baby tech Awards" at the Global Consumer Electronics Show (CES).

In the quality evaluation carried out by German authority ADAC, Cybex and gb car seats have won first in all seven groups.

With regard to global industry standard, the Group, as the secretariat of Standard ISO/PC310 for children's vehicles designated by the International Standards Organization (ISO), is responsible for the formulation of international standards. The Group's test centers were identified by the ISO as designated laboratories to verify the feasibility of testing methods of international standards.

The past is also a prologue of the future.

Looking ahead, Goodbaby is facing great opportunities in China and profound space globally. The rise of middle-class in China presents great business for brands, whereas the combination of Internet and craftsmanship opens up new opportunities for "Made in China". Globally, there is infinite space in brand upgrade, category expansion and regional market penetration, where our Group has obvious first-mover advantage.

The vision of Goodbaby for the future is to build a global maternity and baby-care ecosystem.

The vision will be achieved in three phases. We are currently in Phase I – building three major platforms: a content platform with brands and commodities as the core; a smart business platform consisting of new retail, new services and new manufacturing; and an incubation platform with big data, talents and capitals as resources.

2018 will be a crucial year in the development history of the Group. Our task is to do our best and win the world.

We look forward to the continued support from our shareholders.

Thank you!

Yours sincerely,
Song Zhenghuan
Chairman

26 March 2018

MANAGEMENT DISCUSSION & ANALYSIS


MARTIN POS
CHIEF EXECUTIVE OFFICER

MANAGEMENT DISCUSSION & ANALYSIS[1]

OVERVIEW

Continued execution of our Strategic Vision in 2017 produces record results.

Our relentless focus on strategic brands has paid off

We made significant upgrades to our gb brand image, particularly in the platinum range, establishing the brand as a leading international premium brand including car seat category which supported strong growth of the gb brand in our China and EMEA market. For Cybex brand, we launched more than 80 new products in 2017 which resulted in strong growth across all regions and all product categories. We also reinforced Cybex as the leading premium "technical-lifestyle" brand through numerous achievements such as winning the ADAC test winner designation, receiving a prestigious design award from Red Dot and being highly embraced by the international celebrity community. For Evenflo brand, we increased our organizational efficiencies under the leadership of Jon Chamberlain and initiated the repositioning of the brand and its product portfolio. In 2017, Evenflo brand business remained stable despite the challenging US economic environment. Concurrently, we initiated plans to further develop our tactical brands and retailers' private label business where we recorded certain declines due to the Group's focus on more strategic initiatives. As a result, on a proforma basis, we achieved a total record revenue of approximately HK$7,523.3 million from our own brand and private label business, representing a year-on-year growth of 15.8%. For our strategic brands, we recorded revenue of approximately HK$2,932.7 million from our gb brand business — of which (HK$1,582.5 million from durable products and HK$1,350.2 million from non-durable products), revenue of approximately HK$1,753.6 million from Cybex brand business and approximately HK$1,734.4 million from Evenflo brand business, representing 27.4% (24.2% and 31.3%), 39.5% and 3.2% year-on-year growth, respectively.

We have successfully transformed our Group into a global leading horizontally and vertically integrated MBC (Maternity, Baby and Children) Ecosystem

Through the successful acquisition and integration of the gb branded non-durable and retail business into the Group through the acquisition of Oasis Dragon Limited, together with the Group's great achievement in the implementation of our brand driven one dragon vertically integrated strategy, we have further transformed the Group into a global leading horizontally and vertically integrated MBC Ecosystem. Our Group platform now consists of Maternity and Baby Care multi brands and omni channel, and a global leading multi-category juvenile products platform of durable products including strollers, car seats, home fixture, outdoor activity toys and non-durable products including feeding, apparel, baby care and home textile. This has been a transformational change for the Group to further strengthen control over the full value chain and to implement our strategic plan.

Upon combining the above with our Blue Chip business, on an as reported basis, our Group achieved record revenue of HK$7,142.6 million and record operating profit of HK$312.5 million, representing year-on-year growth of 14.5% and 46.3%, respectively. On a proforma and non-GAAP[2] basis, the Group achieved record revenue of approximately HK$8,626.4 million and record operating profit of approximately HK$695.7 million in 2017, representing a year-on-year growth of 11.7% and 34.3% respectively.

EXECUTIVE SUMMARY

2017 was a significant year for us. We established a clear, global strategy for each brand by taking into account of regional market dynamics and continuously improved our organisation to ensure execution excellence. We successfully consolidated and integrated China retail and sales organisation. We continued our strategy to streamline and build up a global supply chain platform focusing on cost optimisation, innovation, quality and service excellence to further reinforce our global competitiveness.

1. Unless stated otherwise, all financial numbers in this Management Discussion and Analysis section are from Group's consolidated accounts as reported according to IFRSs.
2. We adopted 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. 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. Please see "Non-GAAP Financial Measures" for details.

MANAGEMENT DISCUSSION & ANALYSIS

SELF-OWNED BRANDS AND PRIVATE LABEL BUSINESS

With a very clear Group brand strategy, we have been focusing on regional execution excellence and working on expanding the Group's global footprints.

Region APAC

In our China market, we recorded strong full-year growth. On a proforma basis, our revenue from China market reached HK$3,165.0 million, representing an increase of 19.8% (21.5% in RMB) from HK$2,642.8 million in 2016 *(please refer to Financial Review section for the revenue from China market as reported according to IFRS)*. The strong growth was mainly driven by our own retail omnichannel growth at 24.5% (26.3% in RMB) which accounted for more than 60% of our revenue from China Market. By category, we recorded 12.4% (14.2% in RMB) growth in durable products, 26.0% (27.8% in RMB) growth in baby care products and 41.4% (43.2% in RMB) growth in apparel and home textile products. By brand, we recorded 24.0% (25.7% in RMB) growth of our gb brand and 100.8% (102.6% in RMB) of Cybex brand, offset by a slight decline in the Happy Dino brand which was under restructured for a relaunch in 2018. With the successful acquisition of Oasis Dragon Limited, we integrated all brands and teams from China market into a new retail & sales organisation under one leadership team which started to drive the "one brand", "one team" and "one system" synergy. We have transformed gb brand from durable goods into a lifestyle brand with multiple product lines and extended Cybex brand from a wholesale model into a retail and wholesale model. We have completed significant renovations in approximately 26 gb branded stores as of 26 March 2018 from which significant sales uplifts are being realised. In addition, we have opened 2 new Happy Dino concept stores as of 26 March 2018 which have been repositioned with all category offerings including durable, non-durable and apparel products. A complete BOOM strategy is now implemented with full speed which will further enhance our competitive advantages in our business in China market and also the global market.

In 2017, business outside China declined by 8.3% to approximately HK$546.3 million from approximately HK$595.5 million in 2016. The decline was mainly resulted from the strategic closure of our Geoby brand business in 2016. To reinforce our footprint in APAC, in March 2018, we formed a non-wholly owned subsidiary with a local distributor in Japan to establish a comprehensive distribution network of our brands in the second largest market in Asia, and set up a new dedicated team as platform for all Group brands in South-East Asia.

Region EMEA

Led by the strong growth of Cybex and the gb Platinum and Gold ranges, revenue in EMEA grew by 38.2% to approximately HK$1,903.5 million in 2017, from approximately HK$1,377.1 million in 2016.

On top of our own solid growth in our brand business in Germany, all other core European markets have also realised significant revenue growth. The strong growth in Cybex brand was attributable to the continued solid performance of our car seat portfolio, as well as the rapid development of our stroller collection through products like the Priam, Mios and Balios M. Another brand-building milestone was achieved in the first half of 2017 when Cybex recorded more than 1 million Facebook fans.

The gb Platinum and Gold range's rapid expansion in 2016 continued in 2017, supported by strong performance of the Pockit and Qbit strollers, as well as a completely new car seat trilogy comprised of the Idan, Vaya I-Size and Elian- FIX. Newly launched gb Vaya i-Size child car seat was rated "test winner" in 2017/11 ADAC testing.

Region Americas

During 2017, we focused our investments on brand building, development of key product platforms and further alignment of our distribution channels. As a result, we grew our revenue by 1.4% in region Americas from approximately HK$1,882.1 million in 2016 to approximately HK$1,908.5 million in 2017. While 2017 was a challenging year for the overall North American retail market, we realised growth by aggressively aligning with consumer trends towards digital purchasing behaviors, launching key car seat and stroller product platforms focused on consumer-driven needs, and increasing flexibility of our supply chain structure, while absorbing the negative financial impact in relation to the bankruptcy of a leading baby retailer. These initiatives, together with the expected 2018 brand and key product relaunch, are expected to provide a solid foundation for the Group's sustainable growth.

BLUE CHIP

Our Blue Chip business recorded a stable second half performance. We achieved this by working in close cooperation with our Blue Chip customers through our outstanding manufacturing, research and development (R&D), cost optimization, and service capabilities. The values we brought to our customers have been recognized and appreciated which helped enhance our customers' trust and confidence in the Group and consequently, our recorded performance was better than expected. As a result, we recorded growth of approximately 1.6% in the second half of 2017 narrowing the year-on-year decline to 10.1% with revenue of approximately HK$1,103.1 million in 2017, from approximately HK$1,226.9 million in 2016.

INNOVATION AND TECHNOLOGY

The Group incorporates seven leading R&D centers across the world. With a team of more than 500 specialists, we ensure the highest standards in engineering and aesthetics are built into our products, which offer comfort and excitement for parents and children. Our aim is to not only fulfill market demands, but to go even beyond. This is supported by a restructured organisation and development of regional competence centers which strengthen the regional capabilities allowing teams to work autonomously and improve time to market. As at 31 December 2017, the total number of the Group's historically obtained patents reached more than 9,200.

In 2017, the Group's strategic brands, CYBEX and gb, have achieved outstanding results in one of the most important European car seat tests. Seven car seats were rated "best in test" achieving the highest overall scores in their respective groups and were awarded "test winners" in the recent independent German Stiftung Warentest and ADAC testing. For strollers, the MIOS won the "Best of the Best" Red Dot Design Award, emphasising once again the excellence of our products and outstanding design. In 2017, we received two Red Dot Design Awards, and one Chinese Patent Award of Excellence 2017.

To strengthen a high standard in child safety, we participated in United Nations working groups and ISO working groups developing new regulations on restraint systems, and we led a task force on (studying) side impacts in relation to car seats. For future improvements in child safety, we are performing our own research which has been presented at three major international conferences. To reinforce our leadership position in child safety research, we cooperated with internationally-renowned independent research organisations supported by our own industry leading testing lab.

MANAGEMENT DISCUSSION & ANALYSIS

PRODUCTION AND SUPPLY CHAIN

We continue to enhance the Goodbaby Excellence System (GBES) we created in 2016 through management and technology projects. We combine lean manufacturing principles and best practices developed primarily in the automotive industry.

To offset increases in raw material costs, we applied a set of tactical purchasing solutions to achieve a leaner and more efficient supply base. As our business continues to expand, we will pursue further supply chain integration, supplier consolidation, procurement and logistic optimisation to achieve world-class efficiency and competitiveness.

ORGANISATION

We continue to expand our global management and leadership capabilities towards a lean organisation structure, always based on our company's core values. Introduced in 2017, the Triangular Management System, focused on centralised vision, strategy and standards with decentralised regional execution. It was well received and the resulting cooperation between Group functions, regions and business units has been simplified and improved to strive towards organisational and process excellence.

These business unit leaders have full executional and operational responsibilities for their areas and are now mentored by regional chairmen, who serve as ambassadors of our mission and cultural values.

OUTLOOK

Upon achievement of the historical results in 2017, we remain confident in our Strategic Vision of becoming the global leader of a Parenting/MBC Ecosystem. With a solid foundation already in place, we will realize our vision by continuing to execute our key strategies for strong growth of our brands; augmenting and reinforcing our Group structure and business model; expanding our supply chain global footprint; striving for manufacturing excellence and cost optimization; expanding our global wholesale distribution networks into key strategic markets and transforming from B2B to B2C with full focus on retail in China. The execution of these strategies will result in the achievement of our goal — sustained profitable growth.

FINANCIAL REVIEW

REVENUE

For the year ended 31 December 2017, the total revenue of the Group increased by 14.5% from approximately HK$6,238.2 million for the year ended 31 December 2016 to approximately HK$7,142.6 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 2017 vs 2016
	2017		2016		
	Sales (HK$ million)	% of sales	Sales (HK$ million)	% of sales	Growth
Our own brand and retailer's private label	6,039.5	84.6	5,011.3	80.3	20.5%
EMEA	1,903.5	26.7	1,377.1	22.0	38.2%
Americas	1,908.5	26.7	1,882.1	30.2	1.4%
APAC	2,227.5	31.2	1,752.1	28.1	27.1%
Blue Chip business	1,103.1	15.4	1,226.9	19.7	-10.1%
Total	**7,142.6**	**100.0**	**6,238.2**	**100.0**	**14.5%**

The growth in the Group's own brand and retailer's private label businesses was mainly driven by the continued market penetration of our strategic brands, improvements in product portfolio and completion of the Acquisition. In region EMEA, we recorded strong growth with Cybex and the gb Platinum and Gold ranges which supported our remarkable revenue growth by 38.2%. Our business in region Americas remained stable despite of difficult US economic environment where several offline retailers met difficulties. We recorded revenue growth by 27.1% in APAC which was driven by revenue growth in China market and slightly offset by decrease of revenue in other APAC markets outside China. In China market revenue grew by 45.4% to approximately HK$1,681.2 million in the year of 2017, from approximately HK$1,156.6 million in 2016. The strong growth was attributable to our continuous improvements in upgrading gb brand image and product portfolio and the completion of the Acquisition.

The decrease of Blue Chip business was mainly due to the proactive restructuring in sales from a previously largest customer as the Group was transforming its business model from OPM to brand-driven business, but we managed to partially offset the decrease by our great efforts in the cooperation with our other Blue Chip customers with our excellent manufacturing and R&D capabilities. We recorded approximately a 1.6% growth in second half 2017 and reduced 2017 full year year-on-year decline to 10.1% with approximately HK$1,103.1 million revenue in 2017, from approximately HK$1,226.9 million in 2016.

MANAGEMENT DISCUSSION & ANALYSIS

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales increased by approximately 6.5% from HK$4,126.7 million for the year ended 31 December 2016 to HK$4,395.8 million for the year ended 31 December 2017. Gross profit for the Group increased from approximately HK$2,111.5 million for the year ended 31 December 2016 to approximately HK$2,746.8 million for the year ended 31 December 2017, and the gross profit margin increased by approximately 4.7% from approximately 33.8% for the year ended 31 December 2016 to approximately 38.5% for the year ended 31 December 2017. The improvement in gross profit margin was mainly attributable to increased revenue contribution from our key strategic brands, improvement in cost competitiveness and the consolidation of the gross profit from the Acquired Business.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by HK$18.0 million from approximately HK$59.1 million for the year ended 31 December 2016 to approximately HK$41.1 million for the year ended 31 December 2017, which was mainly attributable to the decrease in gains from foreign exchange but partially offset by the increase in government subsidies.

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 increased from approximately HK$982.5 million for the year ended 31 December 2016 to approximately HK$1,332.5 million for the year ended 31 December 2017, which was mainly attributable to the increased marketing expenses for brand-building and transportation costs for the Group's revenue growth and the consolidation of such expenses relating to the Acquired Business from 24 October 2017 to 31 December 2017 (the "Consolidation Period")

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of salaries, research and development costs, professional service expenses and other back office expenses. The administrative expenses increased from approximately HK$924.3 million for the year ended 31 December 2016 to approximately HK$1,103.5 million for the year ended 31 December 2017. The increase was mainly due to the increase in research and development costs to support new product and innovation, cost in relation to the Acquisition, provision for potential uncollectible receivable related to the liquidition of a leading customer and the administrative expenses relating to the Acquired Business during the Consolidation Period.

OTHER EXPENSES

Other expenses of the Group decreased to approximately HK$39.4 million for the year ended 31 December 2017 from approximately HK$50.2 million for the year ended 31 December 2016. In 2016, the Group recorded disposal losses of HK$42.0 million from the discontinuation of our non-strategic and unprofitable business. Excluding the disposal losses in 2016, other expenses of the Group increased by HK$31.2 million, which was mainly attributable to the losses from foreign exchange due to USD depreciation.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit increased by approximately 46.3%, or HK$98.9 million, from approximately HK$213.6 million for the year ended 31 December 2016 to approximately HK$312.5 million for the year ended 31 December 2017. The Group's non-GAAP operating profit increased by approximately 21.0%, or HK$71.9 million, from approximately HK$342.7 million for the year ended 31 December 2016 to approximately HK$414.6 million for the year ended 31 December 2017.

FINANCE INCOME

For the year ended 31 December 2017, the Group's finance income increased by approximately 39.4%, or HK$1.3 million, from approximately HK$3.3 million for the year ended 31 December 2016 to approximately HK$4.6 million. The Group's finance income mainly represents interest income from bank deposits.

FINANCE COSTS

For the year ended 31 December 2017, the Group's finance costs increased by approximately 18.7%, or HK$10.3 million, from approximately HK$55.2 million for the year ended 31 December 2016 to approximately HK$65.5 million. The increase for the year ended 31 December 2017 was mainly attributable to the increase in LIBOR interest rate and a new term loan for the Acquisition.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group increased by 55.4% from approximately HK$161.8 million for the year ended 31 December 2016 to approximately HK$251.5 million for the year ended 31 December 2017. The Group's non-GAAP profit before tax increased by approximately 21.6% from approximately HK$290.9 million for the year ended 31 December 2016 to approximately HK$353.6 million for the year ended 31 December 2017.

INCOME TAX

The Group's income tax expense was approximately HK$67.1 million for the year ended 31 December 2017 whereas income tax credit was approximately HK$50.4 million for the year ended 31 December 2016. In 2016, the Group recognized deferred tax assets that previously were not recognized by our subsidiaries in the United States. In 2017, the Group recorded deferred tax expenses due to the reduction of income tax rate as a result of U.S. tax reform enacted in December 2017.

PROFIT FOR THE YEAR

Profit of the Group for the year ended 31 December 2017 decreased by 13.1% from approximately HK$212.2 million for the year ended 31 December 2016 to approximately HK$184.4 million. Non-GAAP profit of the Group for the year ended 31 December 2017 increased by 32.7% from approximately HK$221.3 million for the year ended 31 December 2016 to approximately HK$293.7 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. The Company's management believes that the non-GAAP financial measures provide investors with more clear view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations by excluding certain impact of discontinuation of non-strategic operations, certain integration-related costs, certain non-cash items, certain impact of merger and acquisition transactions, certain one-off bad debt provision, recognition of deferred tax expenses due to the change of tax law and recognition of deferred tax assets previously not recognized. Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tools. 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.

MANAGEMENT DISCUSSION & ANALYSIS

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2017							
		Adjustments						
	As reported	Equity-settled share option expenses	Net fair value losses on call and put options (a)	Amortization of intangible assets and inventory appreciation (b)	Transaction cost for the Acquisition	One-off bad debt provision (c)	U.S. tax reform effect on deferred tax assets and liabilities(d)	Non-GAAP
	(HK$ million)							
Operating profit	312.5	8.9	2.2	35.4	27.3	28.3	–	414.6
Profit before tax	251.5	8.9	2.2	35.4	27.3	28.3	–	353.6
Profit for the year	184.4	8.9	1.6	27.5	27.3	22.7	21.3	293.7
Operating margin	4.4%							5.8%
Net margin	2.6%							4.1%

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

Notes:

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

(b) Amortization of intangible assets and inventory appreciation arising from acquisitions, net of related deferred tax.

(c) One-off bad debt provision associated with the Toys "R" Us bankruptcy filing in the U.S. and Canada.

(d) Recognition of deferred tax expense in U.S. arising from the reduction of income tax rate as a result of U.S. tax reform law change enacted in December 2017.

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

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

(g) Recognition of deferred tax credit in U.S. arising from Evenflo reaching sustainable profitability.

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2017	As at 31 December 2016
	(HK$ million)	
Trade and notes receivables (including trade receivables due from related parties)	1,171.7	928.8
Trade and bills payables	1,312.6	926.5
Inventories	1,861.3	1,099.8

	For the year ended 31 December 2017		For the year ended 31 December 2016
	Original Business (Days)	Acquired Business (Days)	Original Business (Days)
Trade and notes receivables turnover days[1]	54	35	57
Trade and bills payables turnover days[2]	89	85	83
Inventories turnover days[3]	113	74	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 in the reporting period.

(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 in the reporting period.

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

To more clearly illustrate our working capital information, we separately presented the working capital turnover days of the Original Business and the Acquired Business.

The increase of trade and note receivables was mainly attributable to the revenue growth, and trade and notes receivables turnover days of the Original Business remained stable. The trade and notes receivables turnover days of the Acquired Business for the Consolidation Period were 35 days.

The increase of trade and note payables was mainly attributable to the increase of the Group's purchases, which were driven by our revenue growth and the Acquisition. The increase in the trade and notes payables turnover days of the Original Business was mainly due to the improvement in more favorable payment terms. The trade and notes payables turnover days of the Acquired Business for the Consolidation Period were 85 days.

MANAGEMENT DISCUSSION & ANALYSIS

The increase of inventories was mainly attributable to the increase in the planned inventories for the anticipated growth in our revenue in the next several months and the inventories acquired in the Acquisition. The increase in inventory turnover days of the Original Business was mainly due to the increase in our own brands business, of which the inventory turnover days are higher than the inventory turnover days of Blue Chip business, which decreased in 2017. The inventory turnover days of the Acquired Business for the Consolidation Period were 74 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's monetary assets, including cash and cash equivalents, time deposits, pledged time deposits and available-for-sale investments, were approximately HK$1,189.8 million (31 December 2016: approximately HK$783.5 million).

As at 31 December 2017, the Group's interest-bearing bank loans and other borrowings were approximately HK$2,736.8 million (31 December 2016: approximately HK$1,228.8 million), including short-term bank borrowings of approximately HK$1,341.7 million (31 December 2016: approximately HK$278.2 million) and long-term bank loans and other borrowings with repayment terms ranging from three to seven years of approximately HK$1,395.1 million (31 December 2016: HK$950.5 million).

As a result, as at 31 December 2017, the Group's net debt position was approximately HK$1,547.0 million (31 December 2016: approximately HK$445.3 million).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities (31 December 2016: nil).

EXCHANGE RATE FLUCTUATIONS

The Group is a multinational enterprise with operations in different countries and the money that it used to conduct its business and transaction is denominated in various currencies, and the Group uses Hong Kong dollar ("HK$") as its reporting currency, which is pegged to U.S. dollar ("US$"). 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 2017, except for the pledged time deposits amounting to HK$15.4 million, the Group did not pledge any other assets.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio (calculated by net debt divided by the sum of adjusted capital and net debt; the amount of net debt is calculated by the sum of trade and bills payables, other payables, advances from customers and accruals, payables due to related parties and interest-bearing bank loan and other borrowings (current and non-current) less cash and cash equivalents; the amount of adjusted capital is calculated by equity attributable to owner of the parent minus hedging reserve) was approximately 44.6% (31 December 2016: approximately 44.5%).

MAJOR AND CONNECTED TRANSACTION

On 24 July 2017 (after trading hours), the Company and Goodbaby China Holdings Limited (好孩子中國控股有限公司) (the "**Vendor**") entered into an agreement, pursuant to which the Company acquired the entire issued capital of Oasis Dragon Limited (the "**Target**", together its subsidiaries "**Target Group**") from the Vendor at a consideration of US$360,000,000 (equivalent to approximately HK$2,812,176,000) payable partly in cash and partly by the issue of Consideration Shares (as defined below), subject to adjustment(the "**Acquisition**"). The Acquisition constituted a major and connected transaction of the Company and was subject to the approval of independent shareholders which was obtained on 21 September 2017. Completion took place on 23 October 2017 with the consideration satisfied as to US$120,485,816 (equivalent to approximately HK$941,187,000) in cash (the "**Cash Consideration**") and as to the balance by the allotment and issue of 536,100,000 new Shares by the Company (the "**Consideration Shares**") at the issue price of HK$3.49 per Consideration Share credited as fully paid.

The consideration is subject to an upward or downward adjustment based on the completion statements of the Target Group as at the date of completion. According to the completion statements of the Target Group as at the date of Completion prepared by the independent auditor, Ernst & Young, the net amount payable by the Company to the Vendor was USD28,267,000 in equivalent and was fully paid by the end of 2017.

For further details, please also refer to the announcement of the Company dated 24 July 2017, 21August 2017, 21 September 2017 and 23 October 2017; and the circular of the Company dated 4 September 2017.

MANAGEMENT DISCUSSION & ANALYSIS

KEY RISKS AND UNCERTAINTIES

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

OPERATIONAL RISK

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

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework which are updated according to business changes or business needs from time to time. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

The competition for talents in the countries that the Group operates leads to the risk that the Group is not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will continue to assess and enhance our remuneration and career development policy and system to attract, retain and motivate suitable talents.

INDUSTRIAL RISK

The Group products market is highly fragmented and competitive worldwide. The Group faces competition primarily from third-party local juvenile product brand owners in the mass market and owners of international brands in the mid to high end market. Failure to maintain the Group's competitive position may materially adversely affect our business, financial condition, results of operations and prospects. Furthermore, change of the overall market condition including but not limited to overall economic condition and applicable regulations may also materially adversely impact the Group's sales, cost, expenses and profitability.

FINANCIAL RISK

In the course of business activities, the Group is exposed to a variety of financial risks, including but not limited to market, liquidity and credit risks. The currency environment, interest rates cycles and mark to market value of derivative financial instruments may pose significant risks to the Group's financial condition, results of operations and businesses.

Market risk is the risk that the Group's earnings and capital or its ability to meet its business objectives will be adversely affected by movement in foreign exchange rates, interest rates and equity prices. The Group has transactional currency exposure which arises from sales or purchases by operating units in currencies other than the units' functional currency. The Group closely monitors the relative foreign exchange positions of its assets and liabilities and has developed a complete set of foreign exchange management policies, processes and mechanism to mitigate foreign currency risk.

Financing risk is the potential that the Group will be unable to meet its obligations when they fall due because of an ability to obtain adequate funding or liquidate assets. In managing financing risk, the Group monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Credit risk is the risk of losses arising from a counterparty defaulting on an obligation which will result in an economic loss to the Group. It arises from manufacturing and sales businesses and other activities undertaken by the Group. The Group's exposure to credit risk for its businesses arises primarily from its customers. New customers are subject to credit evaluation while the Group continues to monitor its existing customers, especially those with repayment issues. Adequate credit insurance schemes are in place to mitigate default impacts. The bank balances are deposited with creditworthy banks with no recent history of default.

BUSINESS RISK

The Group's businesses may be affected by various business risks, including but not limited to the Group's ability to gauge and respond promptly to changing consumer demands and tastes for the Group's product lines to cope with the intensified competition within the industry. Any failure to successfully translate market trends into attractive product offerings would have a material adverse effect in the Group's business, financial condition, results of operations and prospects.

Business and customer data are exposed to cybersecurity risk of attacks from hackers and sophisticated organizations. The Group continues to manage the compliance with local cybersecurity legal requirements and strengthens internal control measures on data protection, including protection of critical information infrastructure and policies and processes to protect commercial and individual privacy data.

In addition, the Group's business also depends on its ability to make improvements to its existing products as well as to create new products for commercialization. Failure to introduce new designs and products or making innovations to the Group's existing products may adversely impact the Group to distinguish itself from other competitors.

Further, the Group's business is also subject to reputation risk, significant changes in customer relationship, failure in the Group's manufacturing process, sourcing of quality key raw materials, stable supply from suppliers, and any material unfavorable changes in our outsourcing co-operation with third-party manufacturers.

Goodbaby International

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

SONG Zhenghuan (宋鄭還), aged 69, is the chairman and executive director of the Company. Mr. Song resigned as the chief executive officer of the Company on 15 January 2016. With more than 27 years of experience in the juvenile products industry, Mr. Song is the founder and primarily responsible for our group's overall strategic direction and the management of the Group's business. Mr. Song majored in mathematics and graduated from Jiangsu Teachers University (江蘇師範學院) in 1981 with a certificate of graduation. Prior to establishing the Company, Mr. Song was a teacher in Lujia Middle School in Kunshan City from 1973 to 1984 and was the Vice Principal from 1984 to 1993. Between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School, the predecessor of Goodbaby Group Co., Ltd., which is a major founding shareholder of our Group. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded our Group to engage in the design, manufacture and marketing of strollers under the 好孩子 Goodbaby brand in China. Because of Mr. Song's outstanding achievements, he was awarded the Ernst & Young Entrepreneur of the Year Award (安永企業家獎) for the Greater China region in 2007. In 2008, Mr. Song was awarded the "Chinese Toy Industry's Outstanding Achievement Award" (中國玩具行業傑出成就獎) by the China Toy Association. In 2013, Mr. Song was selected as winner of Walter L. Hurd Executive Medal 2013 by the Walter L. Hurd Fo.

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

(i) Goodbaby Child Products Co., Ltd.;
(ii) Ningbo Goodbaby Child Products Co., Ltd.;
(iii) Paragon Child Products Co., Ltd.;
(iv) Jiangsu EQO Testing Services Co., Ltd.;
(v) Cybex (China) Child Products Co., Ltd.;
(vi) Goodbaby Children's Products, Inc.;
(vii) Goodbaby (Hong Kong) Limited;
(viii) Goodbaby Japan Co., Ltd.;
(ix) Magellan Holding GmbH;
(x) Goodbaby US Holdings, Inc.;
(xi) Serena Merger Co., Inc.;
(xii) WP Evenflo Holdings, Inc.;
(xiii) Evenflo Company, Inc.;
(xiv) Evenflo Asia, Inc.;
(xv) Lisco Feeding, Inc.;
(xvi) Lisco Furniture, Inc.;
(xvii) Goodbaby (Europe) Group Limited;
(xviii) Evenflo Hong Kong Limited; and
(xix) Pacquita Limited.

Mr. Song is an indirect shareholder and director of Cayey Enterprises Limited and Pacific United Developments Limited ("PUD"), both of which are substantial shareholders of the Company.

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

Mr. Song is also a director of Prefect Horizon Limited, Pinnacle Century Limited, Era Will Limited and 昆山媽媽好網絡技術有限公司 as well as an executive director of Goodbaby China Holdings Limited.

Mr. Song is the spouse of Ms. Fu Jingqiu, the non-executive director of the Company.

Martin POS, aged 48, is an executive director and chief executive officer of the Company responsible for the Group's strategy implementation and overall management, leading all the Group's business units and functions across each continent, comprising of technical services, supply chain and manufacturing, brand portfolio management, international distribution, national distribution and the Group's central services. Mr. Pos is the founder of the world's leading high-end child car seat brand CYBEX. He is an entrepreneur with over 20 years of industry experience including the development and management of premium lifestyle brands, most notably the global distribution, design and development of premium baby products. Following the merger of CYBEX in early 2014, Mr. Pos was appointed as the executive director of our company in March 2014 primarily responsible for the management of portfolio of global brands for our company. In December 2014, Mr. Pos was appointed as the deputy chief executive officer. In January 2016, Mr. Pos has succeeded Mr. Song as the chief executive officer of our company.

YANG Ilcheul, aged 49, was appointed as an executive Director on 10 November 2017 being responsible for the Group's retail strategy and its execution, as well as business development of the Group in China. With over 20 years' experience in retail business, Mr. Yang has thorough insight into landscape and development trend of retail industry in China and in-depth understanding of global retail industry dynamics. He was experienced in successful development and implementation of retail strategies and comprehensive management of retail business and organization with distinguished spirit and capability for innovation. From 1992 to January 2017, Mr. Yang worked in E-Land Group, a South Korean conglomerate where he was responsible for supply chain management, Puma Sports business and WHO.A.U business and later on served various positions in E-Land Group such as general manager for business in the southwest China region, the east China region and the northern China region successively. Afterwards, he was general manager of E-Land international retail business and then managed its retail business in whole the Asia Pacific region and served as managing director of New Core City Lifestyle Mall ("優客城市廣場") which is a very leading innovative retail business in China. Mr. Yang graduated from the Hanyang University in South Korea in 1992 with bachelor's degree.

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

(i) Goodbaby (China) Retail & Service Company.
(ii) Shanghai Goodbaby Fashion Co., Ltd.

DIRECTORS & SENIOR MANAGEMENT

XIA Xinyue (夏欣躍), aged 48, was appointed as an executive Director on 10 November 2017. Mr. Xia will be responsible for the Groups global supply chain strategy and its execution, including production, procurement and logistic. Mr. Xia has extensive management experience in automotive industry for over 25 years. He was the president of the China division of the Faurecia Automotive Seating Business Group for more than 6 years managing 15 factories before he joined our Group. Prior to this, he served various positions within Faurecia Automotive Seating Business Group China division from plant general manager to deputy general manager of the China division. Before he joined Faurecia China in December 2004, Mr. Xia ever worked for different international companies of automotive industry in China. Mr. Xia obtained a bachelor's degree in Tele-Communication Engineering from the Shanghai Tiedao University in 1992. He also obtained a master of business administration degree from the DongHua University in 2001 and a doctorate degree in management science from the Shanghai Jiao Tong University in 2007.

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

(i) Ningbo Goodbaby Child Products Co., Ltd..
(ii) Goodbaby Child Products Co., Ltd.
(iii) Paragon Child Products Co., Ltd.

LIU Tongyou (劉同友), aged 50, was appointed as an executive Director on 21 February 2017 and Regional Chairman APAC on 15 July 2017. He is responsible for direct supervision and management of Group's finance, internal audit, IT, legal, investor relationship and M&A, and development and implementation of strategy and target for these areas in his direct supervision and management. Mr. Liu started to support the Group from 1994 and formally joined the Group in 1996. Mr. Liu was appointed as the Group's Chief Finance Officer in 2010 being responsible for the Group's finance, internal audit, legal affairs, investor relationship and M&A plus relatively new responsibility, IT matters. Before he was appointed as the Group's Chief Finance Officer, he had been our Vice President and responsible for finance management, internal audit and legal matters of the Group. Mr. Liu has over 20 years of experience in corporate finance, legal and business management. Mr. Liu received his bachelor's degree of science in 1989 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a Master's degree in economics in 1992. Mr. Liu worked for a famous Economist, Jiang Yiwei (蔣一葦), as his academic secretary in 1992. He joined the Beijing Standard Consultancy Company (北京標準股份制諮詢公司) in 1993 as the business director and responsible for consulting on the restructuring as well as listing consultancy of a number of Chinese enterprises, including Haier Electric Appliance Company and Hainan Airlines Company.

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

(i) Goodbaby (Hong Kong) Limited;
(ii) Goodbaby Child Products Co., Ltd;
(iii) Paragon Child Products Co.,Ltd;
(iv) Ningbo Goodbaby Child Products Co., Ltd;
(v) Jiangsu EQO Testing Services Co., Ltd.;
(vi) Goodbaby Czech Republic s.r.o.; and
(vii) Columbus Trading-Partners Japan Limited.

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

Mr. Liu is a shareholder and director of Silvermount Limited. Mr. Liu is also a shareholder of Sure Growth Investments Limited.

Michael Nan QU (曲南), aged 50, was appointed as an executive director of the Company since 18 March 2014 and chairman for the Northern and Southern markets since 15 July 2017. Since December 2014, Mr. Qu has been primarily responsible for our Blue Chip Customers worldwide, working in a leadership role for the American market. Prior to this, Mr. Qu was our company's vice president, primarily responsible for managing key overseas accounts and strategic overseas resources. Mr. Qu joined us in 1994 and he is one of the founding members of the overseas business of the Group. Mr. Qu studied economics in the Economics School of Peking University from 1986 to 1989. He then went to the United States to study business administration at George Mason University from 1989 to 1992.

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

(i) Goodbaby Children's Products, Inc.
(ii) Goodbaby (Hong Kong) Limited;
(iii) Goodbaby US Holdings, Inc.;
(iv) Serena Merger Co., Inc.;
(v) WP Evenflo Holdings, Inc.;
(vi) Evenflo Company, Inc.;
(vii) Evenflo Asia, Inc.;
(viii) Lisco Feeding, Inc.;
(ix) Lisco Furniture, Inc.;
(x) Columbus Trading – Partners USA Inc.;
(xi) Evenflo Canada Inc.;
(xii) Evenflo Hong Kong Limited; and
(xiii) Muebles Para Ninos De Baja, S.A. De C.V.

Mr. Qu is also an executive vice president of Goodbaby Children's Products, Inc.

Mr. Qu is a Shareholders of Sure Growth Investments Limited, a substantial shareholder of the Company.

NON-EXECUTIVE DIRECTORS

FU Jingqiu (富晶秋), aged 66, was appointed as a non-executive Director on 10 November 2017. With her over 30 years of extensive experience in retail and distribution of juvenile products in China, Ms. Fu will provide business operation guidance and advisory consulting services to the Group for development and management of its business in China market. Ms. Fu is the co-founder of Goodbaby China Holdings Limited (together with its subsidiaries collectively referred to "CAGB Group") and is now primarily responsible for the overall business management and strategic development of CAGB Group. Before founding of CAGB group, Ms. Fu was the vice president of Goodbaby Child Products Co., Ltd. ("GCPC"), from February 1993 to July 2010, where she was primarily responsible for retail and distribution of GCPC products in China market.

Ms. Fu is also a director of Shanghai Goodbaby Fashion Co., Ltd and Goodbaby (China) Retail & Service Company.

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

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

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

DIRECTORS & SENIOR MANAGEMENT

HO Kwok Yin, Eric (何國賢), aged 61, was appointed as a non-executive director of the Company on 1 February 2013. Mr. Ho was admitted as a solicitor in England and Wales in 1987 and as a solicitor in Hong Kong in 1988. He was a founding partner of Sidley Austin in Hong Kong and remained a partner of the firm until his retirement in 2010. Mr. Ho has over 30 years of experience in the legal profession with related expertise in international mergers and acquisitions and private equity transactions. Mr. Ho received a Bachelor of Social Science Degree from the Chinese University of Hong Kong in 1980.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Iain Ferguson BRUCE, aged 77, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996, and served as chairman for KPMG Asia Pacific from 1993 to 1997. He has been a member of the Institute of Chartered Accountants of Scotland since 1964 and is a fellow of the Hong Kong Institute of Certified Public Accountants. He is also a fellow of The Hong Kong Institute of Directors and Hong Kong Securities and Investment Institute. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc,. a company listed on NASDAQ, up to 3 July 2012. He was also an independent non-executive Director of Vitasoy International Holdings Limited and retired from that company's board on 4 September 2014. He was the Chairman of KCS Limited from June 2003 to 1 August 2015. He resigned as an independent non-executive director of Sands China Ltd., a company listed on the Stock Exchange, on 11 March 2016. He also resigned as a non-executive director of Noble Group Limited, a company listed on The Singapore Exchange Securities Trading Limited, on 11 May 2017, and resigned as an independent non-executive director of Citibank (Hong Kong) Limited on 2 August 2017.

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

- independent non-executive director of The 13 Holdings Limited (formerly known as Louis XIII Holdings Ltd.), a company listed on the Stock Exchange;
- independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange;
- independent non-executive director of Wing On Company International Limited, a company listed on the Stock Exchange;
- non-executive director of Yingli Green Energy Holding Company Limited, a company listed on the New York Stock Exchange.

Mr. Bruce is an independent non-executive director of MSIG Insurance (Hong Kong) Limited. Mr. Bruce has over 51 years of experience in the accounting profession and possesses the accounting and related financial management expertise required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

SHI Xiaoguang (石曉光), aged 71, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Shi is the consultant of China Toy & Juvenile Products Association since 26 March 2015. In January 2012, Mr. Shi became the member of the Governance Board of the ICTI CARE Foundation. Mr. Shi has been elected as a new director of the ICTI CARE Foundation representing China since June 2016. Mr. Shi was formerly the chairman of China Toy & Juvenile Products Association (中國玩具和嬰童用品協會) (formerly known as the China Toy Association (中國玩具協會)) and a director of the International Council of Toy Industries since 2005. In October 2000, Mr. Shi was appointed as the vice-chairman of the National Technical Committee of Standardization for Toys by the General Administration of Quality Supervision Inspection and Quarantine. China Toy & Juvenile Products Association routinely provides information and holds training seminars on toy safety, product design and market development. The responsibilities of China Toy & Juvenile Products Association include recommending the safety standards and/or regulations of durable juvenile products to recommend the Group designs and manufactures to recommending the safety standards and/or regulations of other general toys and related products in the industry. Mr. Shi graduated from Beijing University of Chemical Technology (北京化工大學) (formerly known as Beijing College of Chemical Technology (北京化工學院)) with a Bachelor's degree in chemical apparatus and engineering in July 1974. Mr. Shi served as the vice-chairman of the department of general administration of The Ministry of Science and Technology from 1985 to 1987. He became a certified engineer in the PRC in September 1987, as granted by the State Scientific and Technological Commission (國家科學技術委員會). From November 1987 to November 1990, he served as the deputy general of China National Scientific Instruments and Materials Corporation (中國科學器材公司). Mr. Shi was appointed as the chairman of the service centre of The Ministry of Light Industry in 1989. From 1993 to 2007, he served as the general manager of China National Arts & Crafts (Group) Corporation (中國工藝美術集團公司) (formerly known as China National Arts & Crafts Corporation (中國工藝美術總公司)).

CHIANG Yun, Rachel (張昀), aged 50, was re-designated as an independent non-executive director of the Company with effect from 23 May 2014. Ms. Chiang was a non-executive director of the Company for the period from 15 November 2007 to 22 May 2014 and a director of the Company for the period from 14 July 2000 to 14 November 2007. Ms. Chiang has over 22 years of private equity investment experience in Asia. She is a founding managing partner of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, the private equity division of Pacific Alliance Group. Prior to the founding of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, Ms. Chiang was a vice president of AIG Global Investment. Ms. Chiang is an independent non-executive director of Sands China Ltd and Pacific Century Premium Developments Limited, both companies are listed on the Stock Exchange. Ms. Chiang was also appointed as a member of the Audit Committee and the Nomination Committee of Sands China Ltd on 14 October 2009 and 30 December 2016 respectively. In addition, Ms. Chiang was appointed as a member of the Audit Committee as well as the Remuneration Committee of Pacific Century Premium Developments Limited on 6 May 2015. Ms. Chiang has been appointed as an independent non-executive director of Merlin Entertainments, Plc., a company listed on London Stock Exchange, on 1 January 2016. Ms. Chiang has also been appointed as a member of the Audit Committee and Health, Safety and Security Committee of Merlin Entertainments Plc. on 24 February 2016. Ms. Chiang is also a managing partner of PAG Asia Capital (HK) Ltd. since June 2011. Ms. Chiang received her degree of executive master of business administration from The Kellogg Graduate School of Management of North-western University in the U.S. and Hong Kong University of Science and Technology in 1999. Ms. Chiang also received her Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in the U.S. in 1992.

DIRECTORS & SENIOR MANAGEMENT

JIN Peng (金鵬), aged 42, was appointed as an independent non-executive director of the Company on 21 February 2017. Mr. Jin has over 18 years of experience in technology investments, entrepreneurship, financial advisory and corporate management. Mr. Jin started his career in 1998 as a member of Bear Stearns Asia's New Media & Telecom group. In 2000, Mr. Jin joined 21Vianet Group Inc. (NASDAQ: VNET) as an executive vice president where he was responsible for overseeing business development, product, marketing and international sales and was later appointed as a chief financial officer. From 2003 to 2007, Mr. Jin served as a partner in CEC Capital Group (formerly known as China eCapital Corporation) where he provided fund raising, merger and acquisition advisory services for growth stage companies in the PRC. In 2008, Mr. Jin co-founded Keytone Ventures, a venture fund focused on early stage technology investment opportunities with a total asset under management of US$420 million. Mr. Jin left Keytone Ventures in 2014 to start Emerge Ventures, a venture studio specializing in mostly seed and angel investments and incubating technology startups. Mr. Jin was appointed as Chief Operating Officer and Secretary of Bison Capital Acquisition Corp. (NASDAQ: BCACU) on 20 December 2016. In addition, Mr. Jin was appointed as an Executive Director of Cinedigm Corp. (NASDAQ: CIDM) on 1 November 2017. Mr. Jin obtained a bachelor's degree with a dual major in Finance and Information Systems from the New York University in 1998.

Save as otherwise disclosed, there is no relationship between any members of the Board except that Ms. Fu Jingqiu is the spouse of Mr. Song Zhenghuan, and no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B) (1) of the Listing Rules.

SENIOR MANAGEMENT

Johannes SCHLAMMINGER, aged 38, is the CEO of Goodbaby International's strategic brands CYBEX and gb. Mr. Schlamminger is predominately responsible for the strategy development of the brands globally. He joined CYBEX in 2010 and has held various management positions within the company. Since January 2015, Johannes has been working as Vice President International Sales. Prior to this, Johannes had worked as Head of Channel Business for ZF Electronics, a supplier of computer devices and electronic automotive parts, and was a professional basketball player at BBC Bayreuth. Through the many positions he was holding, Johannes was able to gain strong commercial and retail experience in the global juvenile industry. Paired with his excellent capabilities in customer understanding and attention to detail, this acquired knowledge lead to an exceptional commercial and operational record.

Jon CHAMBERLAIN, aged 56, is the chief executive officer for the Eveno brand. Mr. Chamberlain joined the Group in January 2017, bringing his proven track record of success in the juvenile industry. Mr. Chamberlain served as president of Americas for Britax from 2007 to 2015, leading a period of dramatic growth and profitability. Before joining Britax, Mr. Chamberlain served as president for Irwin Tools, a division of Newell Rubbermaid, and President of Swingline Tools, a division of ACCO Brands. Mr. Chamberlain holds a Masters in Business Administration from Loyola University in Maryland.

Michael YANG (楊克嘉), aged 45, is the chief financial officer of the group and responsible for finance management of the Group. Prior to joining our Group in November 2017, Mr. Yang was chief operating officer for Sephora (LVMH Group), Great China in charge of finance, supply chain, IT and regulation & corporate affairs since 2011. Before joining Sephora he ever worked at Bekaert Asia; Coca-Cola Enterprises, L'OREAL China and Unilever. Mr. Yang has more than 20 years of experience working in multinational companies for roles from accounting, controlling, and overall finance management to business management and operations. Mr. Yang received his Bachelor's degree in International Accounting in 1991 at Shanghai International Studies University and 1993 at Shanghai University of Finance and Economics.

Dave TAYLOR, aged 55, is the senior vice president of Group Business Development and responsible on a global level to lead the development and execution of new initiatives. Prior to joining our Group in March 2015, Mrs. Taylor was chief operating officer at Welch Packaging Group in Elkhart, Indiana, USA. Before joining Welch Packaging Group in 2013, he worked nine years at Dorel Juvenile Group, Inc. – as president and CEO from 2006 to 2012, he was responsible for the Dorel Juvenile Group's hundreds of millions in revenue from its juvenile consumer products business, the primary focus of which was the marketing and manufacturing of children's furniture, gear and safety products serving the world's retail and consumer markets. Previously Mr. Taylor worked at OCMC, Inc; BrightPoint Corporation; Ball Corporation and Price Waterhouse. Mr. Taylor has over 33 years of professional experience in total, with six years of international experience worked in Hong Kong and Germany. He holds a Bachelor of Science in Accounting of the Ball State University, Indiana, USA.

Simone BERGER, aged 39, is the senior vice president of Group Human Resources in charge of our Group's human resources and talent management strategy globally. Mrs. Berger has been an international HR executive for more than 10 years. After working in the USA and Germany at Bayer AG, one of the leading life science companies, she relocated to Asia in 2005. She spent almost 6 years in Shanghai at Schaeffler Group, a globally-known German automotive supplier. There she led the international human resources function for the Asia Pacific Region. In 2010, Mrs. Berger moved with Schaeffler Group to Singapore. Prior to joining CYBEX/Goodbaby in August 2012, she was the regional manager human resources Asia Pacific at Voith Turbo Singapore, a German multinational corporation in the mechanical engineering sector with worldwide operations. Mrs. Berger holds a diploma of economics of the University of Applied Science of Economy & management.

Raoul BADER, aged 55, is the senior vice president Technologies Brands for the Group leading our global research and development, quality and technical project management for the Group's brands. Dr. Bader has accumulated over 18 years of experience in consumer goods business, with 8 years working at leading MNC's including Braun, Gillette and Procter & Gamble as an R&D manager. Following Braun, Dr. Bader joined Leifheit, a German company that produces household products where he was responsible for the R&D, quality and IT. After four years with Leifheit, Dr. Bader went on to join CYBEX, and has been a key member of CYBEX team for over four years. During this time he has played an instrumental role in establishing the CYBEX brand as a leader in safety and technology. In September 2015, Dr. Bader was appointed as senior vice president of the Group. He holds a Diploma in physics and received a PhD from the University of Ulm, Germany.

Philip RAUM, aged 41, is the senior vice president of Group Marketing predominately in charge of the global brand management and marketing strategies for the Group and its brands. He joined the Group in March 2015. Prior to this, he worked for nine years at medi as the General Manager for the lifestyle division. Mr. Raum was instrumental in building and launching two new global lifestyle brands for medi:CEP, functional sportswear label and ITEM m6, functional fashion legwear and shapewear label. Within this role, Mr. Raum was responsible for the product and commercial strategy of the brands. His key career highlights include establishing and positioning both brands within high-end sports and fashion markets in more than 30 countries worldwide with a priority on the North-American, Central European and Asian markets.

COMPANY SECRETARY

HO Siu Pik (何小碧), is a Director of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms Ho has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Including the Company, Ms Ho is currently the company secretary/joint company secretary of six listed companies on The Stock Exchange of Hong Kong Limited, namely, Asia Cement (China) Holdings Corporation 亞洲水泥 (中國) 控股公司 (stock code: 743), China Greenland Broad Greenstate Group Company Limited 中國綠地博大綠澤集團有限公司 (stock code: 1253), China Molybdenum Co., Ltd. 洛陽欒川鉬業集團股份有限公司(stock code: 3993), Summit Ascent Holdings Limited 凱升控股有限公司 (stock code: 102) and Natural Beauty Bio-Technology Limited 自然美生物科技有限公司 (stock code: 157). Ms Ho is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators ("**ICSA**") in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Ms Ho holds an Honours Diploma in Company Secretaryship & Administrators from Lingnan College (now known as Lingnan University) and a Master of Business Administration degree from University of Wales.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

OVERVIEW

This is report is the second Environmental, Social and Governance (ESG) Report published by the Group, with the focus on disclosing information on the Group's performance in environmental and social aspects from 1 January 2017 to 31 December 2017. This report is an annual report.

BASIS OF PREPARATION

This report is mainly based on the revised "Guidelines on Environmental, Social and Governance" published by Hong Kong Stock Exchange in December 2015.

The contents of this report are made based on a set of systematic procedures. Relevant procedures include identifying and listing out important stakeholders, identifying and listing out important ESG-related issues, determining the scope of ESG report, collecting relevant materials and receipts, compiling data based on materials and analysing data in the report, etc.

REPORTING SCOPE AND BOUNDARIES

The policy documents, declarations and data in this report basically cover the Company and its subsidiaries.

DATA SOURCES AND RELIABILITY GUARANTEE

The data and cases in this report are mainly from the Company's statistical reports and related documents. The Company undertakes that there are no false representations or misleading statements and it is responsible for the authenticity, accuracy and completeness in the material aspects of the contents of this report.

CONFIRMATION AND APPROVAL

After receiving approval of the management, the report was approved by the Board of Directors on 26 March 2018.

ENVIRONMENT, SOCIETY AND GOVERNANCE

ESG GOVERNANCE STRUCTURE

In order to effectively implement the ESG measures, the Company has set up the ESG Report Working Group. Relevant departments arranged special personnel to collect ESG-related data and to prepare report. The ESG Report Working Group regularly reports to the Board of Directors through the CEO, so as to assist in the evaluation and determination of the appropriateness and effectiveness of the ESG risk management and internal control systems. The roles and responsibilities are as follows:

Board of Directors

- Assess and determine the Company's ESG risks
- Ensure that the Company sets up appropriate and effective ESG risk management and internal control systems
- Examine and approve ESG-related policies
- Examine and approve ESG Report

CEO

- Implement ESG risk management and internal control system
- Guide the work of ESG Report Working Group
- Examine and approve ESG-related policies
- Examine and approve ESG Report, confirm the accuracy of performance indicator data

ESG Report Working Group

- Arrange special personnel to collect ESG-related data and prepare report
- Regularly report to the management of the Company to assist in the evaluation and determination for appropriateness and effectiveness of the ESG risk management and internal control systems

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GOVERNANCE PHILOSOPHY

We are proud to be a company that provides quality products and services for children. Our mission is to improve children's living environment and quality, and everything we do is in accordance with the Company's core values: imagination, passion, strength, trust, respect and love. Believing in the value of creativity and imagination, we encourage employees to be open-minded and innovative. Passion can help us overcome difficulties. Desire and motivation are keys to achieving our goals. Our strength makes us resilient. Trust and team spirit are our foundation. We respect our employees, business partners, customers and other stakeholders. We create our products and serve our customers with our energy and love. At the same time, we actively assume social responsibilities to protect the planet. Our employees come from different backgrounds and speak different languages, but we all share the same value.

IDENTIFICATION OF STAKEHOLDERS

We are committed to building a wide range of channels of communication with our stakeholders. We believe that a two-way, transparent and regular communication will help maintain a harmonious relationship with all parties, strengthen mutual trust and respect, and lay a solid foundation for the Company's sustainable development. We have identified a number of key stakeholders who have decision-making powers or influence on the Company and are closely related to the Company (e.g., contractually or geographically related). The stakeholders include the following groups:

- Employees
- Shareholders/Investors
- Government departments
- Suppliers
- Communities
- Media
- Consumers

We actively communicate with different stakeholders to understand their concerns and regularly review the effectiveness of our policies to ensure that the views of stakeholders are properly conveyed through different communication channels. The following table lists out the topics of interest of different stakeholder groups during the reporting period.

Stakeholder group	Main concerns of stakeholders	Communication/feedback channel	Frequency
Employees	Employment and labour	– Interview with employees	From time to time
	Salaries and benefits	– IInternal email of the Company	From time to time
	Training and development	– Internal Wechat account	From time to time
Shareholders/Investors	Operation results ESG governance philosophy	– General meeting/Extraordinary general meeting	The general meeting of shareholders is held once a year. If there is a major event, an extraordinary general meeting.
		– Investor meeting	From time to time
		– Results announcement	From time to time
		– Press release/announcement	From time to time
		– Field research	From time to time
Government departments	Green production	– Field research	From time to time
	Compliance	– Meeting	From time to time
		– Applications and explanation	From time to time
		– Written report	From time to time
Suppliers	Product liability	– Field research, involvement in the research and development ("**R&D**") of new products, establishment of product traceability system	From time to time
	Supply chain management	– Supplier Quality Assurance counseling, supplier assessment	From time to time
	Operation results	– Supplier conference	Once a year
Communities/non-governmental organizations	Green Production	– Field research	From time to time
	Product liability	– Meeting	From time to time
Media	Community investment	– Press release/announcement	From time to time
	Product liability	– Interview	From time to time
		– Conference	From time to time
Consumers	Product liability	– Online promotion	From time to time
	Green production	– Offline store display, press release, promotional activity, roadshow	From time to time
		– Email	From time to time
		– Telephone	From time to time
		– Wechat	From time to time
		– Conference	From time to time

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GOVERNANCE OBJECTIVES

We are fully aware of our social responsibilities. Therefore, we strive to cater for social needs, strengthen communication with the public, use our own professional advantages, to carry out activities which will contribute to the construction and development of a harmonious society. In terms of the Company's core values, we will continue to care for our employees, protect the environment and repay the society. We will advance with the times, deepen the value of social responsibility and work together with the stakeholders. Through cooperation, innovation and action we will contribute to the society and create a new prospect for harmonious development of the company and the society.

MAJOR HONORS AND AWARDS IN 2017

INTERNATIONAL AWARDS:

CYBEX MIOS stroller won the Red Dot Award 2017 (Best of the Best)

MIOS the urban stroller of CYBEX has been awarded "Best of the Best" for its innovation, agility and pioneering design by the Red Dot Award jury.

The Red Dot Design Award is one of the most internationally recognized industrial design awards and the "Best of the Best" is the highest honor among the Red Dot product design awards. Only 103 products out of more than 5,500 entries have been granted with the highest honor in 2017.

reddot award 2017
best of the best

gb Vaya i-Size has been awarded by ADAC & Red Dot in 2017

gb Platinum Vaya i-Size has been awarded "test winner" in "Group i-Size until 105 cm" in the European test of child car seats performed by Stiftung Warentest and ADAC in October 2017. gb Vaya i-Size received the label "Good" with the final grade "2.3". Together with the gb Platinum Idan, which received the label "Good" in June 2017, two gb car seats are officially tested by APAC and achieved distinguished results.

gb Vaya i-Size has also been honored by Red Dot with "winner" in the category "Babies and Children (Child Car Seat) in October 2017.

As a member of gb Platinum Series, the Vaya i-Size is a new generation of car seats - it can be used either forward or rear facing.

reddot award 2017
winner

ADAC Online 10/2017
16 child car seats tested
GB
Vaya i-Size
ADAC
good (2.3)
Test

ISO PC310 Wheeled Child Conveyances Secretariat

On 12 June 2017, with approval from the International Organisation for Standardization (ISO), Goodbaby was authorized to set up the Joint Secretariat of the ISO/PC310 Commission for the International Standard Project of Wheeled Child Conveyances. The secretariat, as an organizer and leader in the formulation of international standards for Wheeled Child Conveyances, will be responsible for the planning and establishment of international standards required for Wheeled Child Conveyances products including baby strollers and electric cars, and will organize and lead global industry experts to study, regulate and determine the technical requirements and test methods for the relevant standards.

NATIONAL HONOR

"Smart Nanny" (智能保姆) won China Patent Excellence Award

On 13 November 2017, the 19th China Patent Awards were formally announced. Goodbaby's "Smart Nanny (智能保姆)" won the China Patent Excellence Award.

The China Patent Award is the only government authority award specializing for patented inventions and creations in China. It is recognized by the United Nations World Intellectual Property Organization (WIPO). The award-winner not only requires a high level of patented technology and innovation, but also evaluates the product's effect on market transformation.

Goodbaby won the honorary title of "National Industrial Design Centre"

On 1 December 2017, the first China Industrial Design Exhibition (中國工業設計展覽會) with the theme of "Innovation – Green – Development" was held at the Wuhan International Expo Center. The exhibition was jointly organized by the Ministry of Industry and Information Technology and the People's Government of Wuhan.

During the exhibition, the Ministry of Industry and Information Technology of the People's Republic of China (MIIT) awarded the Scientific Child Care Product Industrial Design Center (科學育兒用品工業設計中心) of Goodbaby Child Products Co., Ltd. the honorary title of "National Industrial Design Centre". This was also the third time Goodbaby obtained this award.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stroller series was awarded the "Single Champion Series Product in the Manufacturing Industry" (製造業單項冠軍產品) by the MIIT

What is a "single champion in the manufacturing industry"? A single champion enterprise in the manufacturing industry refers to an enterprise which has long focused on certain specific product segments of the manufacturing industry with internationally leading production technology or processes technology, and has a single product market share ranking among the top enterprises in the world. "Single" emphasizes that the enterprise must focus on the target market and make intensive and meticulous efforts in the relevant field for a long period of time. Meanwhile, it must also be a "champion" which requires the enterprise to have a strong market position and a very high market share as well as a champion-level market position and technical strength in the segment.

Goodbaby Child Products Co., Ltd. won the honorary title of "National High-Tech Enterprise" (國家高新技術企業) again

High-Tech Enterprise refers to a resident enterprise which, within the scope regulated by the Field of High and New Technology with the Key Support by the Country promulgated by the State, conducts ongoing research and development as well as transformation of technological achievement, forming the enterprise core intellectual property rights based on which business activities are carried out, and is a knowledge-intensive and technology-intensive economic entity.

Goodbaby Child Products Co., Ltd., an indirect wholly owned subsidiary of the Company was first recognized as a "National High-Tech Enterprise" in 2008. After two reviews in 2011 and 2014, it won the honorary title in 2017 again.

INTEGRITY OPERATION

During the 28 years since incorporation, we have developed into a multinational company and a world leader of children's products. In the development process, we adhere to the strict implementation of legal strategies and comply with the laws and regulations of each region. At the same time, we have been achieving high moral standards, including but not limited to fairness, integrity and honesty.

STRICT PROHIBITION OF CORRUPTION

We strictly abide by national anti-corruption laws and regulations and have zero tolerance for any form of bribery or corruption.

We have developed a detailed "Anti-Corruption Policy" that explicitly requires our employees, suppliers and other interested parties to abide by the relevant laws and regulations of each country. Kickbacks are absolutely prohibited and employees may not accept improper payments, or improperly grant or receive gifts, as well as donations to political institutions, communities and charity organizations, community agencies and charity organizations. We demand every employee to earnestly study the "Anti-Corruption Policy" and always pay attention to his or her own behaviour. At the same time, we have set up a "Whistleblowing Policy" which is supervised by the Audit Committee. The "Whistleblowing Policy" encourages employees, customers, suppliers, and other stakeholders to report suspicious misconduct or malpractice.

We advocate that each of our employees assume the responsibility of maintaining the Company's reputation. At all times, we must be honest and upright, and we are committed to helping the Company to obtain this purpose.

COMPLETELY ERADICATE VIOLATIONS

We follow the guidelines and our core values. It is the responsibility of all employees to comply with the "Code of Business Conduct" enacted by the Company. If there is uncertainty, employees should consult with their direct supervisor, Human Resource department or legal department. We have been training our staff on studying the "Code of Business Conduct" and the "Anti-Corruption Policy", and any violation of the "Code of Business Conduct" will be subject to disciplinary actions.

We also encourage employees to report violations of the law or violations of company regulations to senior management of relevant departments. The Company has developed a supporting mechanism to properly handle any reported violations or complaints.

QUALITY POLICY

We have been adhering to the philosophy of creating and producing quality products sincerely for 28 years.

INNOVATION CREATES “GOODBABY”

Innovation is in our DNA. Driven by technological innovating, management innovation and idea innovation, we have gradually developed into a global industry leader.

The Group has set up 7 R&D centres in China, Europe, the United States and Japan, bringing together more than 500 elite designers within the industry from various countries. The Group also set up a renowned team composed of R&D, quality, marketing and manufacturing departments, to form the integrated product development model (IPD). Our research and development is renowned for seamless connection, efficiency, collaboration, and cooperation. As an important member of the Children’s Products Standards Committee in China, United States and Europe, we have led or participated in the development of 186 product standards for children in China and other countries. With approval from the International Organisation for Standardization (ISO), we set up the Joint Secretariat of The ISO/PC310 Commission for the Standardisation of Wheeled Child Conveyances, for which we were evaluated by the International Standards Committee as “an enterprise that has a voice in this industry”. We will lead the industry experts from different countries to develop the international standards for Wheeled Child Conveyances. As at 31 December 2017, the total number of patents obtained by our Group exceeded 9,200.

Swan, the world’s innovative carbon fiber child stroller, is elegant and smart. Its frame is made of carbon fiber, which is light and resilient. The total weight is greatly reduced. The four front and rear wheels are intelligent and can turn in every direction so that the stroller can rotate 360 degrees. This makes it easier for the parent to switch between forward facing and rear facing positions.

CYBEX intelligent safety car seat won the CES Gold Prize at the International Consumer Electronics Show

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STRICT CONTROL OF PRODUCT QUALITY

We use the most advanced quality control tools (Six Sigma, FMEA, DFMEA, PFMEA, hazard assessment, etc.) to meet with the TS16949 certification and ISO9001 certification standards for quality control system in the automobile industry.

We actively adopt fault design prevention, simplified design and safety design, weather resistant design and ergonomic design in the product designing process. In the early stages in the product planning, product designing and development, we begin to study the safety, reliability and manufacturability of products. Before implementing the product design, the product safety committee organises product safety assessment, and we introduce the security contents of product safety assessment in various production stages to ensure that no new products with hidden danger proceeded to the next step and guarantee that the product is safe and reliable from the source.

In the process of mass production, we carry out our control of the product quality and safety risk at two levels: Company and business division/factory. The Company's Quality Management Centre is responsible for the management/control of the supplier and organisation of product auditing, process auditing and system auditing to ensure the effectiveness of the quality control process. The factory is responsible for routine auditing of the supplier, purchase inspection/testing, quality confirmation of the first piece, process inspection, factory inspection/testing and a comprehensive testing after fixing a date or quantity to achieve product consistency.

Our factories in the United States use testing standards which are stricter than requirements of the US government. These general testing standards which are beyond the industry standards include impact testing (impact intensity is twice that set forth in the federal impact test standard), side impact test, UV test, misuse test, cycle test, chemical test and traffic test.

ENSURE PRODUCT SAFETY

We have established a nationally recognised testing centre, which includes mechanical and testing laboratories, a chemical laboratory, a toxicity analysis laboratory, a child car safety seat impact test laboratory, a textile laboratory and a component laboratory. Products tested in the testing centre include car seats, strollers, dining chairs, baby straps and children's activity centre. The tests ensure that all of our products and accessories are examed for safety and reliability. The testing centre has the following qualifications:

- A laboratory at national level accredited by China National Accreditation Service for Conformity Assessment (CNAS) and ISO17025 laboratory quality certification
- A laboratory accredited by China Metrology Accreditation (CMA)
- A laboratory accredited by the ECE R 44 certification of the National Standards Authority of Ireland (NSAI)
- A laboratory accredited by Consumer Product Safety Committee (CPSC) of the United States
- As a member of the Juvenile Products Manufacturers Association (JPMA), we are committed to improve industry standards, safe use and selection of children's products, and working closely with US regulators (CPSC and NHTSA)
- As a member of the Automotive Manufacturers Equipment Compliance Agency (AMECA), we advocate development of children's products standards and methods
- As a member of the Child Injury Prevention Society (CChIPS), we develop safer products through researching on prevention of child injury in order to prevent child injury
- As a member of the Baby Products Association (BPA), we participate in the executive and technical committees

The Company has established "Product Safety Management Policy" to regulate the Company's product safety management, prevent and eliminate product defects which may lead to injuries to consumers in order to protect the health and safety of our consumers. The Company has set up a Safety Committee to evaluate the risks of the product and the market, then decide whether the product needs to be recalled. We have developed a clear recall plan to protect consumers and customers. When the following circumstances occur, we should provide the information to members of the product Safety Committee within 24 hours to analyse the severity and determine the recall plan:

a) The product is complained by customers due to health and safety risks;

b) The product is found by the relevant authorities in checks (regular checks of government agencies) to contain defects;

c) The media reports product injury events;

d) Defective products are found in the Company's internal inspection;

e) Other changes (including technology, laws and regulations and emergencies) which affect the delivered products and cause safety risks to those products;

f) Defect-related information on other relevant products.

RESPONDING TO CUSTOMER COMPLAINTS

We have developed the "Customer Complaint Handling Policy", the "Control of No Conformance Product Procedure", the "Customer Satisfaction Measurement and Analysis Procedures", the "Claims Management Policy", the "Quality Responsibility Management Policy" and other measures to deal with complaints related to products and services. At the same time, we have developed a complaint handling process. After receiving the customer complaints, a quality warning notice is issued to confirm the cause of the complaint. If a major problem is found, we will temporarily suspend operations to deal with complaints. The above policies and processes help us to exercise effective control over the handling of complaints.

PROTECTING DATA AND PRIVACY

We have developed the Information Security Policy and other measures to prevent the information owned or collected by the Company from the loss in confidentiality, completeness and validity. We safeguard business information of the Company is used reliably, safely and completely and maintain confidentiality of personal data and other sensitive information.

PROTECTING INTELLECTUAL PROPERTY RIGHTS

We have attached great importance to the creation, the use, the management and the protection of intellectual property rights. Since 1991, we have started using the law as weapons to protect ourselves against counterfeits. In 2010, we established the Intellectual Property Protection Centre. Currently, the Corporate Legal Department and the Intellectual Property Protection Centre take charge of managing and maintaining the global intellectual property, developing and implementing trademark brand strategy, brand building and rights protection.

Application and registration of trademarks and patents: We have developed a detailed process that requires all trademarks and patents to be registered before production, so as to prevent external competitors' malicious cybersquatting. At the same time, by means of legal agreements, we have made clear that all on-duty inventions by employees belong to the Company's intellectual property, protecting the corporate intellectual property rights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The use of trademarks by the departments should be in accordance with the provisions of the law. No change of the trademark design and fonts at will is allowed. Such measure is to prevent the emergence of trademark dilution and protect the validity of the Company's trademark assets.

Intellectual property rights monitoring: The Company has employed internal lawyers in regional headquarters of China, Europe and the United States to manage the Company's intellectual property, while hiring local professional law firms to help deal with issues related to intellectual property as well as monitoring domestic and foreign trademarks. Thus, the vertical and horizontal brand protection system network is constructed for the global brand management strategy. At the same time, we have documented various intellectual property rights in China Customs to prevent the export of products which infringe our intellectual property rights.

Protection of intellectual property rights: over the years, we have launched a total of more than 100 litigation cases of intellectual property infringement in the offline market, effectively combated counterfeit manufacturers, and safeguards the legitimate rights and interests of the Company. For the online market, we hired a professional anti-counterfeit company, and closely cooperated with e-commerce platforms to timely remove infringing product links. In Europe and Americas, we identified infringement acts through industry exhibitions and sales channels, and combated the European and American infringing manufacturers promptly by sending out lawyer's warning letters, lodging suits in court, etc., in order to actively maintain the healthy development of overseas markets.

GREEN PRODUCTION

We implement green production practices and reduce the risks caused to the environment. We use resources with caution and always comply with applicable local environmental protection laws and fire safety laws and regulations.

As various types of emissions and energy consumption of the Company mainly result from production process which is centralised in China, the followings are the reports of the production process in Chinese region.

EMISSIONS REDUCTION

The Company has established the ISO14001 environmental management system and has achieved effective management of waste water, exhaust, wastes and disposal by developing a series of management systems and operating specifications such as "Wastewater Management Regulations", "Exhaust Gas Management Regulations" and "Waste Management Regulations". In addition, by mastering and analysing the basis weight of environmental burden substance produced in the operation activities, we try to reduce the burden of production activities on environmental protection, so that the concentration of waste water and waste emissions will fall below the emission concentration allowed by the government.

Wastewater discharge in 2017:

Name	Total Volume (tonne)	Density mg/L
Chemical Oxygen Demand (COD)	1.1356097	43.4
Nitrogen	0.1724425	13.2
Phosphorus	0.0035227	0.17

Wastewater Discharge

Wastewater generated by production activities is handled through multi-level materialization, biochemical treatment process and MVR concentrated water evaporation system. New and efficient flocculants and bleaching agents are introduced for the materialized section to improve removal rate of pollution elements accordingly. Living aerobic species are regularly added for biochemical treatment process to ensure that removal rate of COD in wastewater reaches 75% and improve removal rate of nitrogen, phosphorus and other pollutants. Addition of evaporator and late-model of heat exchanger for MVR evaporation system reduces heat loss and extends stable operation time of the evaporation system, so as to ensure stable nitrogen and phosphorus emission and achieve zero emission of nitrogen and phosphorus in the anode plant.

In terms of saving resources and reducing the total amount of pollutants discharged, the production line evaluates new water usage points for the reuse of intermediate water to increase its reuse rate.

Exhaust gas emissions in 2017:

Name	Total Volume (tonne)	Density mg/m3
Sulfuric acid mist	0.0336	0.4

Greenhouse gas emissions in 2017:

Name	Total Volume (tonne)	Density mg/L
Carbon dioxide	22,382.25	10.45

Exhaust Gas Emissions

New water spray tower and photo-oxidation catalytic decomposition treatment system are introduced for waste gas in plastic injection during production activities of the Company, while new activated carbon exhaust adsorption treatment system for VOC waste gas in gluing, new water spray treatment system for waste gas from surface polishing of aluminum alloy are also introduced. Unorganized emissions of the above gas pollutants have been transformed to organized collection and disposal for emission. Removal rate of organized collection emission reaches above 98% on average, significantly reducing pollutant emissions.

Total volume and density of hazardous waste in 2017:

Name	Total Volume (tonne)	Density (hazardous waste per HKD 1 million output value) (tonne)
Hazardous waste	1,880.153	0.76

Total volume and density of non-hazardous waste in 2017:

Name	Total Volume (tonne)	Density (harmful waste per HKD 1 million output value) tonne)
Plastic	848.626	0.34
Metal	1,343.73	0.54
Packaging (such as waste cardboard, waste pad board, waste foamed cloth, etc.)	584.54	0.24
Other auxiliary	98.69	0.04

Waste Management

We strictly comply with the regulations in waste management:

The Company realised effective handling of hazardous and harmless wastes by establishing "Waste Management Regulations" and "Hazardous Waste Disposal Processes". In accordance with the "Waste Management Regulations", collection and storage of hazardous and harmless waste should be classified, and qualified suppliers are commissioned in a classified manner for legal disposal.

As for hazardous waste and its containers and packing materials, classified storage, fixed storage and the identification logos are used. The Company commissioned the suppliers to transport those wastes to the disposal chamber, and strictly fill in the transfer forms of hazardous waste in accordance with the relevant provisions of the government. In addition, the Company also designated personnel to follow and ensure that the hazardous wastes of the Company have been transferred to the disposal organisation.

The Company takes "ecological economy" and "economy recycle" as the goals, and the efficient use and recycling of resources as the key to implement "reduction, reuse and resource utilisation" of the wastes. It combines the clean production and comprehensive use of wastes to genuinely reduce resource consumption for ecological efficiency, to ensure the establishment of the material recycle system and the use of product materials safety, and achieve economy recycle.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENERGY SAVING AND CONSUMPTION REDUCTION

We conscientiously implement relevant laws and regulations with environment production and clean production as the goal. Various measures including energy saving, pollution reduction and efficiency enhancement are applied to reduce the impact of our production activities on the environment. Meanwhile, we continue to establish and improve the environmental management mechanism, and continuously promote further improvement of environmental protection management capacity by strengthening supervision and the foundation.

Energy and resource consumption of the company mainly include electricity, natural gas, diesel and water.

Total volume and density of energy and resource consumption in 2017:

Name	Total Volume	Density (resources per HKD 1 million output value)
Electricity	42,884,417 kwh	17343.21 kwh
Natural gas	1,270,084 m^3	513.64 m^3
Diesel	30.9216 t	0.01t
Water	1,169,023 t	472.77 t

The Company has formulated the "Energy Resources Management Regulations" in accordance with the Energy Conservation Law of the People's Republic of China. Energy resources management implements a management system at four levels including company, department, workshop, and team. The Company has established the Energy Resources Management Leading Group responsible for making decisions on energy resource management. The person in charge of each department, workshop (section), and team is the responsible manager for energy resources at his or her level in the management mechanism, so as to establish the energy resource management network for the entire company. The Company has developed a set of energy-saving plans, energy-saving technology development, energy consumption quotas, energy-saving incentives, energy-saving publicity and training, mechanism for review and supervision implementation.

In 2017, the Company installed infrared water-saving devices in toilets of dormitories in the production areas. With the implementation of such initiative, the Company can save 120,000 tonnes of water each year.

Resource consumption is not only reduced in the production phase but also in the finished products packaging process by actively reducing the use of packaging materials.

The total volume and proportion to per production unit of packaging materials used in finished products in 2017:

Name	Total volume (HKD million) *	Proportion (%): Total value of packaging materials sed for finished products in 2017/Total output value recorded in 2017 * 100%
Plastic	30.77	1.24%
Cardboard	114.62	4.64%

* It is impossible to use "tonne" as the statistical unit, but the value of total packaging materials used is a statistical mean, with unit as "HKD million", to calculate the proportion of total value of packaging materials used to the total output value recorded in the year.

ENVIRONMENTAL PROTECTION

In 2017, the Company formulated the environmental management systems such as the "Environmental Management Manual", "Management System for Rainwater Sewerage Network", "Management System for Collection and Storage of Hazardous Waste", "Environmental Management Responsibility System" to standardize environmental management and reduce energy consumption for environmental protection through continuous improvement of the technology.

The gb Mios (G5729) stroller rear pull rod lower joint (a component connecting the rear wheel and the frame) uses die-cast aluminum alloy ADC12 its the main material. The manufacturing process requires the use of techniques such as aluminum die casting, polishing and powder coating. In 2017, the Company upgraded its production process. While maintaining the original performance level of the stroller, the Company used the polymer material, PA6+50%GF, for injection molding to replace the original cast aluminum alloy joint, and cancelled the aluminum diecasting, polishing and powder coating techniques, thus reducing potential environmental pollution and improving work conditions for employees. This stroller fully complies with the relevant safety and performance standards.

RESPONSIBLE SUPPLY

We know that suppliers, as the starting point of the entire value chain of business, have impact on the enterprise in an in-depth and extensive manner, and the quality of their products directly affects the product quality of the entire enterprise. The Company has been seeking for suppliers who are qualified, reputable, and offer superior qualities and are willing and able to operate their business in accordance with all applicable legal and ethical standards.

The Company's suppliers mainly include raw material suppliers, semi-finished products suppliers and finished products suppliers. As a whole, we demand the suppliers to comply with provisions in the "Company's Supplier Guidelines" regarding laws and regulations, forced labour, child labour, working hours, anti-discrimination, environmental and hygiene issues. Specifically, in terms of employment, the Company asks suppliers to ensure that employees are hired voluntarily. The use of any forced labour or prison labour is prohibited. In terms of environment protection, suppliers should comply with local and all applicable environmental laws and regulations in the country. We strive to protect the environment and tend to choose suppliers sharing a common sense of social responsibility with us. In terms of hygiene, suppliers should comply with local and all applicable health and safety laws in the country and provide safe and healthy working conditions for employees.

These standards are part of all agreements between the Company and the suppliers. We hope that the suppliers can establish and implement appropriate internal business processes to ensure that it can comply with the minimum standards set out in this policy. If the suppliers fail to comply with this policy, the Company shall have the right to terminate the contract with such suppliers and claim all costs and losses arising therefrom. This may even result in the termination of the Company's partnership with such supplier.

In 2017, the Company newly implemented the "Department Manual for Procurement Management Centre", "Supplier Management Control Procedures", "Material Pricing and Contract Management Policy", "Scattered Procurement Management Policy" on the basis of the original policies to strictly regulated or refined the approval, audit and withdrawal mechanism for the suppliers.

CARE FOR EMPLOYEES

We inspire each colleague to thrive in an environment full of entrepreneurial spirit, innovation, passion, respect and trust. We endeavor to nurture everyone so that they, both as an individual and as a team member, can grow with great ambitions. With these foundations, we can actively predict the future and achieve sustainable development.

HUMAN RESOURCES OVERVIEW

We have an excellent team dedicated to creating a creative, visionary and enjoyable career environment. Our colleagues come from different countries and cultural backgrounds, but all of our teams have the common corporate value.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has always seen employees as one of the most important stakeholders in the enterprise, and follows fair employee recruitment, engagement, and training principles and object to ethnic, gender, religious and other forms of discrimination. Employees' professional competence, skills, experience and quality, and more importantly - their enthusiasm are the standards for our selection of employees. In addition, the Company strictly abides by the relevant labour laws, regulations and policies of the locations where we operate, formulate labour standards, prohibit the recruitment of child labour and forced labour. The Company guarantees that all staff are voluntarily employed and do not use prison labour, and bonded labour and so on. The Company prohibits any person from collecting all kinds of deposit and original documents from employees and prohibits any department and any person within the Company from forcing employees to work by means of violence, threat or illegal restriction of personal freedom.

As of 31 December 2017, the Company has 15,516 employees.

JOINT DEVELOPMENT OF GLOBAL STAFF

The Company is committed to providing challenging, meaningful and rewarding individuals and career opportunities for all employees. In this respect, the Company will treat all employees equally regardless of the age, gender, origin, physical condition or whether there are any other protected features. This rule applies to all processes where the employee is employed, including recruitment of new employees, training, growth, remuneration, promotion, demotion, mobility, dismissal and special programs for selected employees.

We respect our employees and are proud to have a globalized team. We bring together the world's experts and use the best ways to inspire creativity. We provide different training courses so that outstanding staff in different regions and positions can carry out in-depth communications.

Our global employee performance dialogue project encourages employees and leaders to open dialogues. With one year of implementation experience, we can better improve the internal talent management and reserve talent plans.

We have developed employee performance dialogue projects in all departments around the world, giving employees an opportunity to expand their international horizons and connections. Employees are able to achieve personal and professional growth within the Group.

The Company has set up a training institution to implement internal and external training programs. This promotes the accumulation, dissemination and updates of the Company's internal knowledge and experience so that employees can have better knowledge of their work and improve their work efficiency. At the same time, this can also help the Company to build learning organizations, enhance the competitiveness and cohesion of the Company.

EMPLOYEE OCCUPATIONAL HEALTH AND SAFETY

We strictly comply with the relevant laws and regulations governing the employee occupational health and safety in various regions where we operate, and provide healthy, safe and hygienic working conditions and necessary protective equipment. In our manufacturing facility in China, we have established an "Occupational Health Management System":

Enhance production safety management system

According to the requirements of laws and regulations such as Labour Law, Production Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases and Fire Control Law of the People's Republic of China, the Company amended a total of 40 areas in occupational health and safety management system and employee liability system.

The Company passed the production line safety standardization class III qualified enterprise acceptance in 2012 and passed its review again in 2015. The Company has established an occupational health and safety management system in accordance with the requirements of the OHSAS18001: 2007 standards and amended and improved 40 areas in occupational health and safety management system and employee liability system.

Enhance technical criterion on safety standards

The Company continues to formulate, revise and improve the technical specification for safety standards. In 2017, the Company revised the “Occupational Health and Safety Manual”, which standardizes the production safety standards and emergency response procedures for all the production lines, as well as the accountability system for responsible persons

Organise targeted training on safety awareness

The Company organised and implemented trainings in safety laws and regulations and 13MR trainings, risk control and other basic safety knowledge trainings, safety skills and quality trainings, and implemented company-level, factory-level and workshop-level trainings to cultivate employees' safety awareness of protecting themselves and others from injury, so as to equip employees the necessary knowledge of production safety to allow them to acquire the safety operation skills for their own posts and enhance their capabilities of preventing accidents, controlling occupational hazards and emergency response and disposition.

Introduce advanced concept of safety management

The Company implemented the forward 13MR management and visual inspection such as usage of locks, prevention of clamping hands, inspection of the first batch and traffic accident prevention at the production sites. Through preparation and revision of checklists, the production safety hazard screening and rectification becomes more systematic and complete, so as to further promote development of the Company's production safety management system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYEE CARE EVENTS

The overall company's goal is not only to offer exciting job and career opportunities, but also to encourage the health and fitness as well as the team spirit amongst our employees.

In May 2017, a cycling tour was held in China and the "GB GOT TALENT" talent show was held in the same month.

On 29 June 2017, Evenflo employees in the United States held a picnic.

COMMUNITY PARTICIPATION

We are proud to be a company that offers the opportunity to do amazing opportunities and products for the world's most precious gift, our children. Currently our community investment strategy focuses on offering our high-quality products to those unfortunate ones who cannot afford our products due to their living circumstances.

We actively cooperate with various institutions to focus on social needs and actively carry out special public welfare activities which focus on children. For example:

In May 2017, invited by the Lujia government of Kunshan, employees in China participated in charitable basketball and football matches.

On 8 June 2017, Evenflo employees in the United States organized a charitable golf tournament to raise funds for the American Cancer Society. A total of US$21,000 were raised. Additionally, employees spontaneously raised funds for the cancer research and development center. A total of US$12,500 were raised.

In July 2017, employees in China went to a university to provide employment counseling for college students.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Evenflo volunteers visited the Dayton Children's Hospital every month to send warmth to hospitalized children. The volunteers produced over 60 teddy bears with children. On 8 August, the Dayton Children's Hospital awarded the volunteers with the "Recognition Award" in recognition of their contribution of more than 250 hours of service in 2017. This action made Evenflo rank among the top ten voluntary organizations in the locality.

Since October 2017, Goodbaby has exclusively entered a total of more than 50 baby care rooms in Guangzhou Baiyun International Airport and Wuhan Tianhe International Airport to provide more than 40 types of maternal and child necessities such as Goodbaby Pockit Stroller, dining chairs, cribs and bedding, Goodbaby feeding bottles, sea water wipes, paper diapers, electronic bottle sterilizers, electronic bottle warmers, hand sanitizer, clean cotton swabs, diaper ointments, urine-absorbing pads and anti-galactorrhea pads free of charge, so that every mother and baby entering the baby care rooms can enjoy the meticulous care of Goodbaby.

INDEXES FOR GUIDELINES ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Level, general disclosure and key performance indicators	Description	Disclosure paragraphs
General disclosure A1	Information on: ((a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste. Policies on the efficient use of resources (including energy, water and other raw materials) Policies on minimising the agency's significant impact on the environment and natural resources	Page 52, 53, 54
Key performance indicators A1.1, A1.2	The types of emissions and respective emissions data. Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 53
Key performance indicators A1.3, A1.4	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 53
Key performance indicator A1.5	Description of measures to mitigate emissions and results achieved.	Page 53
Key performance indicator A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Page 54
Key performance indicator A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 54
Key performance indicator A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 52
Key performance indicator A2.3	Description of energy use efficiency initiatives and results achieved.	Page 55
Key performance indicator A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 55
Key performance indicator A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Page 55
General disclosure A3	Policies on minimising the issuer's significant impact on the environment and natural resources.	Page 54
Key performance indicator A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 55
General disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Page 55, 56
General disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.	Page 56, 57
General disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Page 56
General disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to preventing child and forced labour.	Page 56
General disclosure B5	Policies on managing environmental and social risks of the supply chain.	Page 55
General disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Page 50, 51
General disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering	Page 48, 49
General disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities	Page 58, 59, 60

Goodbaby International

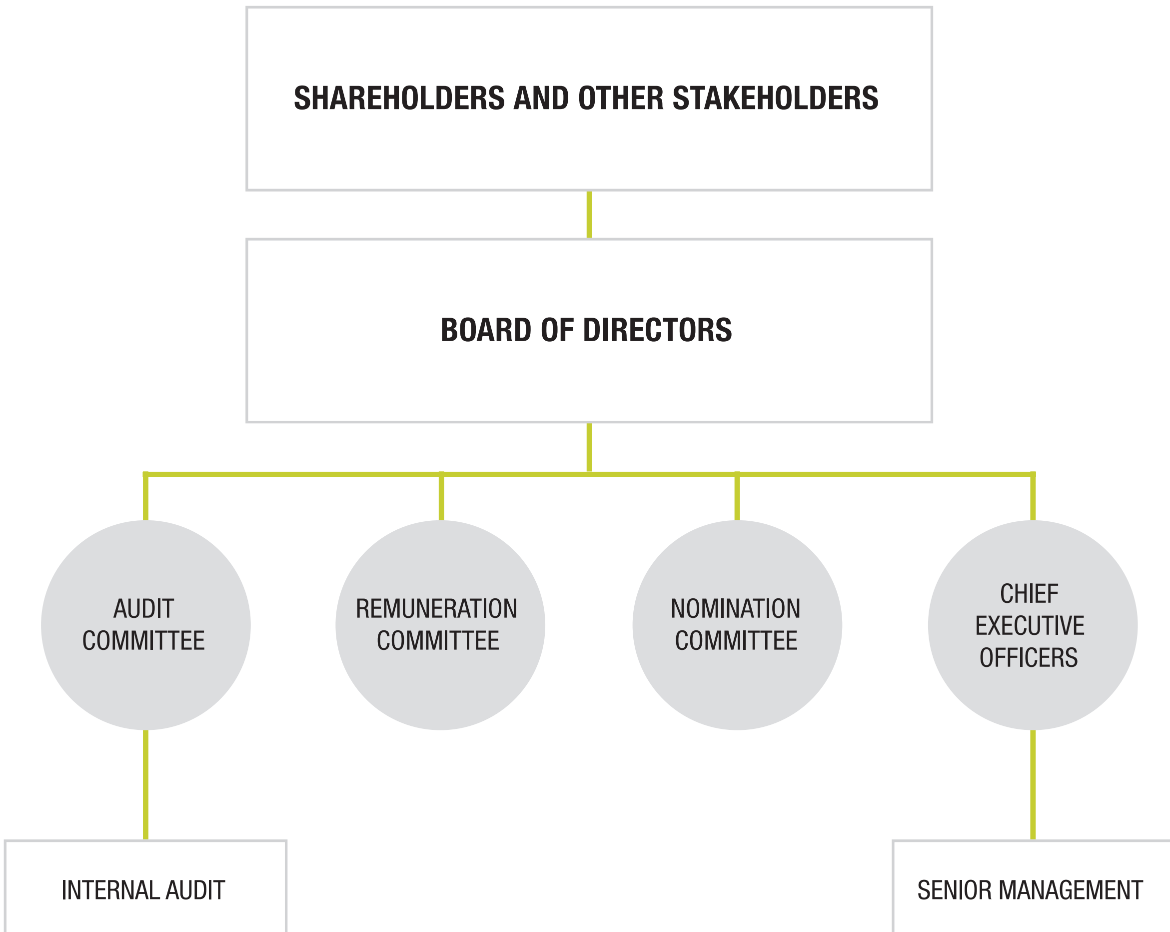
CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The board (the "Board") of directors (the "Directors") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2017. The manner in which the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented is explained in the following sections of this corporate governance report:

CORPORATE GOVERMANCE STRUCTURE AND PRACTICES

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. It believes that high corporate governance standards are essential in providing a framework for the 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 CG Code and has also put in place certain recommended best practices as set out in the CG Code.

The Board is of the view that throughout the year ended 31 December 2017, the Company has complied with all the code provisions set out in the CG Code.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

LEADERSHIP

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board currently comprises twelve members, consisting of six executive Directors, two non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. SONG Zhenghuan *(chairman)*
Mr. Martin POS *(CEO)*
Mr. YANG Ilcheul *(since 10 November 2017)*
Mr. XIA Xinyue *(since 10 November 2017)*
Mr. LIU Tongyou *(since 21 February 2017)*
Mr. Michael Nan QU

Non-executive Directors

Ms. FU Jingqiu *(since 10 November 2017)*
Mr. HO Kwok Yin, Eric

Independent non-executive Directors

Mr. Iain Ferguson BRUCE
(chairman of audit, nomination and remuneration committees)
Mr. SHI Xiaoguang
(member of audit, nomination and remuneration committees)
Ms. CHIANG Yun
(member of audit, nomination and remuneration committees)
Mr. JIN Peng *(since 21 February 2017)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 30 to 39 of this annual report.

None of the members of the Board is related to one another, save and except that Ms. FU Jingqiu, non-executive Director, is the spouse of Mr. SONG Zhenghuan, the chairman and executive Director of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and CEO are held by Mr. SONG Zhenghuan and Mr. Martin POS respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017. The Company has also established a code of conduct no less exacting than the Model Code (the "Employees Code of Conduct") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Code of Conduct by the employees was noted by the Company.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. The Board has delegated to the CEO, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference.

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

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

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

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company. Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internal briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. During the year ended 31 December 2017, all Directors have provided the Company with a record of the training they received on a half yearly basis, and such records were maintained by the Company. The training record of each Director during the year ended 31 December 2017 is set out in the table below:

Name of Directors	Hours of Training in 2017
SONG Zhenghuan	6
Martin POS	6
YANG Ilcheul	1
XIA Xinyue	1
LIU Tongyou	6
Michael Nan QU	6
FU Jingqiu	1
HO Kwok Yin, Eric	6
Iain Ferguson BRUCE	35.5
SHI Xiaoguang	6
CHIANG Yun	6
JIN Peng	3

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. The non-executive Directors and each of the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years.

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

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2017 are set out in note 9 to the financial statements.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. HO Siu Pik has been appointed as the Company's company secretary. Its primary contact person at the Company is Ms. WANG Qi, Group Legal & Compliance Director of the Company.

The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 30 to 39 of this annual report. During 2017, the company secretary undertook over 15 hours of professional training to update her skills and knowledge.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. All members of each Board committee are independent non-executive Directors. A list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 6 to 7 of this annual report.

AUDIT COMMITTEE

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held three meetings on 21 February 2017, 28 March 2017 and 27 August 2017 to review the annual financial results and report in respect of the year ended 31 December 2016 and interim financial results and report for the six months ended 30 June 2017 as well as significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors, continuing connected transactions and arrangements for employees to raise concerns about possible improprieties. During the year ended 31 December 2017, the Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

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

The Remuneration Committee held three meetings on 21 February 2017, 28 March 2017 and 10 November 2017 to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of executive Directors and senior management for 2017 as well as other related matters. The Remuneration Committee also made recommendations to the Board on the terms of service agreement and appointment letter of the new directors appointed during the year.

NOMINATION COMMITTEE

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors. External recruitment professionals might be engaged to carry out recruitment and selection process when necessary.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee held three meetings on 21 February 2017, 28 March 2017 and 10 November 2017 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting and to consider and recommend to the Board on the new directors appointed during the year. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board at a board meeting held on 23 August 2013. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience. The Nomination Committee will discuss and agree on the measurable objectives for achieving diversity on the Board and recommend candidate(s) to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies, procedures and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

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

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2017 has covered the aforesaid matters.

BOARD MEETINGS

BOARD PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2017 is set out in the table below:

Name of Director	Attendance/Number of Meetings in 2017				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
SONG Zhenghuan	6/6	N/A	N/A	N/A	2/2
Martin POS	6/6	N/A	N/A	N/A	1/2
YANG Ilcheul (2)	1/1	N/A	N/A	N/A	0/0
XIA Xinyue (2)	1/1	N/A	N/A	N/A	0/0
LIU Tongyou (1)	5/5	N/A	N/A	N/A	2/2
Michael Nan QU	6/6	N/A	N/A	N/A	0/2
WANG Haiye (3)	6/6	N/A	N/A	N/A	0/2
Jan REZAB (3)	5/6	N/A	N/A	N/A	0/2
FU Jingqiu (2)	1/1	N/A	N/A	N/A	0/0
HO Kwok Yin, Eric	6/6	N/A	N/A	N/A	1/2
Iain Ferguson BRUCE	4/6	3/3	3/3	3/3	2/2
SHI Xiaoguang	6/6	3/3	3/3	3/3	2/2
CHIANG Yun	6/6	3/3	3/3	3/3	2/2
JIN Peng (1)	5/5	N/A	N/A	N/A	0/2

Notes:

(1) Appointed on 21 February 2017, 5 board meetings were held after his appointment.

(2) Appointed on 10 November 2017, 1 board meeting was held after his/her appointment.

(3) Resigned on 10 November 2017.

Apart from regular Board meetings, the chairman also held a meeting solely with the non-executive Directors (including independent non-executive Directors) on 26 March 2017.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 90 to 102.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility to safeguard corporate governance through monitoring and reviewing the effectiveness of the risk management and internal control systems regularly through the Audit Committee. Such systems are designed to identify, assess and report on potential risk areas and implement control measures to mitigate rather than eliminate the risks to achieve business objectives on reasonable level but no absolute assurance against material misstatement or loss. The Audit Committee reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists the Board in fulfilling its oversight and corporate governance roles in the Group's risk management and internal controls, and the resources of the finance and internal audit functions.

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

CORPORATE GOVERNANCE REPORT

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

- An organizational structure with clearly defined and distinct lines of authority and control responsibilities
- A comprehensive financial accounting system to provide for performance measurement indicators and to ensure compliance with relevant rules
- Annual plans prepared by senior management on financial reporting, operations and compliance with reference to potential significant risks
- Strict prohibition of unauthorized expenditures and release of confidential information
- Specific approval from executive director/responsible senior executive prior to commitment in all material matters
- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget
- Review and evaluation of the control process and monitoring of any risk factors on a regular basis by the management; and report the same to the Audit Committee on any findings and measures to address the variances and identified risks
- Set up group risk management system and embed risk management as part of all the organizational processes

During 2017, the Company has taken various actions to enhance the risk management systems with the following key improvements:

1) The Company has established a set of new Corporate Governance policies to enhance the corporate governance foundation including Risk Management and Internal Control Guideline, Internal Audit Guideline, Employee Non-Compete Policy, Connected Transactions Policy, Business Continuity Management Policy, Delegation of Authority, etc.

2) In order to embed the risk management systems into the core operating practices of the business, the Company reviewed and assessed the key controls to address the key business risks in a number of core business processes including procurement to payment, sales to collection and financial reporting, etc. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews were recorded in the Risk Control Matrix (RCM) for monitoring and for regular reporting to the senior management and directors of the Company.

The Group Internal Audit has also embedded risk management into the internal audit planning stage and has formulated the annual internal audit plan based on the results of the annual risk assessment exercise with involvement of senior management members. Strategic, operational, compliance and financial risks are considered and discussed with management team in the process.

During 2017, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Company has established a set of Corporate Governance policies to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited, and to improve the effectiveness of its risk management and internal control systems. Among the mentioned policies, the key policies are illustrated as the following.

CODE OF BUSINESS CONDUCT

All staff of the Company are subject to the Code of Business Conduct. It provides guidance on matters relating to legal compliance, conflict of interest, confidential information, fair competition, business opportunities, career opportunities, as well as environment, health and safety. The code promulgates ethical values in business activities and requires employees to adhere to it when discharging their delegated duties.

WHISTLEBLOWING POLICY

The Audit Committee has established and oversees a whistleblowing policy. In line with that commitment, the Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to come forward and voice those concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

DISCLOSURE POLICY

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

CONNECTED TRANSACTION POLICY

The Connected Transaction Policy is established to provide consistent group-wide rules on the identification, assessment and approval and disclosure of connected transactions, in compliance with the rules defined in Chapter 14A of the Listing Rules.

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2017 amounted to HK$9,725,000 and HK$533,000 respectively. An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2017 is set out below:

Service Category	**Fees Paid/Payable**
Audit Services	9,725,000
Non-audit Services	
• Transfer pricing compliance review for PRC entities	254,000
• Transaction diligence	231,000
• Others	48,000
	10,258,000

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

However, due to other commitments, four executive Directors, Mr. Martin POS, Mr. Michael Nan Qu, Mr. WANG Haiye and Mr. Jan REZAB as well as an independent non-executive Director, Mr. JIN Peng did not attend the annual general meeting held on 25 May 2017. In addition, three executive Directors, Mr. Michael Nan QU, Mr. WANG Haiye and Mr. Jan REZAB, a non-executive Director, Mr. HO Kwok Yin, Eric as well as an independent non-executive Director, Mr. JIN Peng did not attend the general meeting held on 21 September 2017. The aforesaid Directors will use their best endeavours to attend future general meetings of the Company.

The 2018 annual general meeting ("AGM") of the Company will be held on 28 May 2018. The notice of AGM was sent to the shareholders at least 20 clear business days before the AGM.

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

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

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

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

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

Eligible Shareholders who wish to convene an EGM for the purpose of making proposal(s) or moving resolution(s) at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity(ies) and the shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Board will be asked to convene an EGM within 2 months and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the Eligible Shareholder(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- at least twenty-one (21) clear days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
- at least fourteen (14) clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

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

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

PUTTING FORWARD ENQUIRIES TO THE BOARD

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

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

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

Goodbaby International

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF DIRECTORS

The Board are pleased to present their report and the audited financial statements for the year ended 31 December 2017 of the Group.

MAJOR BUSINESS

After the major and connected transaction completed at 23 October 2017, details of which is set out on page 27 of this annual report, the major business of the Company expended to design, research and development, manufacture, marketing and sales of children's car safety seats, strollers, apparels and home textile products, feeding, nursing and personal care products, cribs, bicycles and tricycles and other children products. The analysis of the revenue of the Group for the year is set out in note 5 to the Financial Statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2017 are provided in the section headed "Chairman's Statement" on pages 8 to 13 and the section headed "Management Discussion and Analysis" on pages 14 to 29 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" on pages 80 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2017 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 14 to 29 of this annual report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" on pages 40 to 61 of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income on page 103 and page 104 respectively. The financial position as at 31 December 2017 of the Group are set out in the Consolidated Statement of Financial Position on pages 105 to 106. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 108 to 109.

SHARE CAPITAL

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

FINAL DIVIDEND

At the Board meeting held on 26 March 2018, it was proposed that a final dividend of HK$0.05 per ordinary share representing a total distribution of approximately HK$83.3 million be paid on 20 June 2018 to shareholders of the Company whose name appear on the Company's register of members on 7 June 2018. The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 28 May 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the annual general meeting and determining the members' entitlement to the proposed final dividend for the year 31 December 2017, the Company's register of members will be closed during the following periods respectively:

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

- Latest time to lodge transfers documents for registration
  4:30 p.m. on 18 May 2018 (Friday)
- Closure of register of members
  21 May 2018 (Monday) to 28 May 2018 (Monday)

(B) For ascertaining entitlement to the proposed final dividend:

- Latest time to lodge transfers documents for registration
  4:30 p.m. on 4 June 2018 (Monday)
- Closure of register of members
  5 June 2018 (Tuesday) to 7 June 2018 (Thursday)
- Record date
  7 June 2018 (Thursday)

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

RESERVES

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

As at 31 December 2017, the reserves of the Company available for distribution to shareholders was approximately HK$3,395.5 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined was approximately 12.7% of the Group's total purchase. The percentages of sales for the year attributable to the Group's major customers are as follows:

– the largest customer	11.4%
– five largest customers in aggregate	38.9%

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

* *For identification only*

REPORT OF THE BOARD OF DIRECTORS

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with retailers, brand owners and distributors globally. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant Legal dispute between the Group and its suppliers and/or customers.

DONATION

During the year under review, the charitable contributions and other donations amounted to HK$1,561,000.

DIRECTORS

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

Executive Directors
SONG Zhenghuan
Martin POS
YANG Ilcheul (appointed on 10 November 2017)
XIA Xinyue (appointed on 10 November 2017)
LIU Tongyou (appointed on 21 February 2017)
Michael Nan QU

Non-executive Directors
FU Jingqiu (appointed on 10 November 2017)
HO Kwok Yin, Eric

Independent non-executive Directors
Iain Ferguson BRUCE
SHI Xiaoguang
CHIANG Yun
JIN Peng (appointed on 21 February 2017)

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

In accordance with the articles of association of the Company, Mr. YANG Ilcheul, Mr. XIA Xinyue, Ms. FU Jingqiu, Mr. HO Kwok Yin, Eric and Ms. CHIANG Yun will retire in the forthcoming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming annual general meeting.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 39 to the Financial Statements and in the section "Connected transactions" below, there was no other contracts of significance with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

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

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

As at the date of this annual report, CRF Enterprises Limited, Pacific United Developments Limited, CRF Investments Limited and Arc Capital Holdings Limited held, together directly and indirectly, less than 30% of the issued share capital of the Company and therefore the undertakings of these four entities and Ms. FU Jingqiu under the Deed of non-Competition 2010 ceased to have any effect.

Mr. Song Zhenghuan has provided an annual declaration on his compliance with the undertakings contained in the Deed of Non-competition 2010 for the period from 1 January 2017 until 23 October 2017, being the date of the signing of a new deed of non-competition described in the next paragraph. The independent non-executive Directors have reviewed the confirmation and were satisfied that Mr. Song has complied with the Deed of Non-competition 2010 during the period from 1 January 2017 to 23 October 2017. Mr. Wang Haiye (resigned as the director of the Company on 10 November 2017) has provided an annual declaration on his compliance with the undertakings contained in the Deed of Non-competition 2010 for the period from 1 January 2017 until 10 November 2017, being the date of his resignation effective date. The independent non-executive Directors have reviewed the confirmation and were satisfied that Mr. Wang has complied with the Deed of Non-competition 2010 during the period from 1 January 2017 to 10 November 2017.

REPORT OF THE BOARD OF DIRECTORS

On 23 October 2017, each of Mr. Song Zhenghuan and Ms. Fu Jingqiu entered into a Deed of Non-Competition (the "Deed of Non-Competition 2017") with the Company under the Acquisition as set out on page 27 of this annual report. For further details of the Deed of Non-competition 2017, please refer to the circular of the Company dated 4 September 2017.

The independent non-executive Directors have reviewed and were satisfied that each of Mr. Song and Ms. Fu has complied with the Deed of Non-Competition 2017 for the period from the Completion Date, 23 October 2017, to 31 December 2017.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants (including (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries) for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

During the year under review and on 28 August 2017, 4,500,000 share options were granted under the Share Option Scheme. Up to 31 December 2017, 13,487,334 share options had lapsed and 15,022,166 share options had been exercised. As at 31 December 2017, 50,950,000 share options were outstanding. Movements of the share options granted during the year ended 31 December 2017 were as follows:

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of share options outstanding at the end of the period	Date of Grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Employees of the subsidiaries of the Company	11,809,500	0	0	0	11,789,500	20,000	3 January 2012	(i) **20,000** share options: 3 January 2013 to 2 January 2018 (ii) **0** share options: 3 January 2015 to 2 January 2018 (iii) **0** share options: 3 January 2016 to 2 January 2018 (iv) **0** share options: 3 January 2017 to 2 January 2018	2.12	2.12
Directors of the Company, employees of the Group and Ms. FU Jingqiu (Chairwoman of the Group's largest distributor in the PRC and a substantial shareholder of the Company)	36,000,000	0	0	5,654,000	1,566,000	28,780,000	29 September 2014	(i) **9,359,992** share options: 29 September 2017 to 28 September 2024 (ii) **10,059,993** share options: 29 September 2018 to 28 September 2024 (iii) **9,360,015** share options: 29 September 2019 to 28 September 2024	3.58	3.40
Eligible participants	22,150,000	0	0	4,500,000	0	17,650,000	7 October 2015	(i) **5,883,333** share options: 7 October 2018 to 6 October 2025 (ii) **5,883,333** share options: 7 October 2019 to 6 October 2025 (iii) **5,883,334** share options: 7 October 2020 to 6 October 2025	3.75	3.75

REPORT OF THE BOARD OF DIRECTORS

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of share options outstanding at the end of the period	Date of Grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Director of the Company	5,000,000	0	0	3,333,334	1,666,666	0	30 August 2016	(i) **0** share options: 30 August 2017 to 29 August 2023 (ii) **0** share options: 30 August 2018 to 29 August 2023	3.87	3.87
Eligible particpants	0	4,500,000	0	0	0	4,500,000	28 August 2017	(i) **1,500,000** share options: 28 August 2020 to 27 August 2027 (ii) **1,500,000** share options: 28 August 2021 to 27 August 2027 (iii) **1,500,000** share options: 28 August 2022 to 27 August 2027	3.88	3.88

Save as disclosed herein, 4,500,000 were granted under the Share Option Scheme or any share option scheme of the Group as at 31 December 2017. The Company estimates the fair value of options granted using binomial tree model. The fair value of options granted during the year ended 31 December 2017, measured as at the date of grant, was approximately HK$1.45 per option.

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share based compensation expense. The following assumptions were used to derive the fair values of share options granted in 2017:

Dividends yield (%)	1.87
Spot stock price (HK$ per share)	3.88
Historical volatility (%)	37.6
Risk-free interest rate (%)	1.58
Expected life of option (year)	10
Weighted average share price (HK$ per share)	3.78

As at 31 December 2017, the total number of shares available for issue under the Share Option Scheme was 107,130,600 shares, which represented 6.43% of the shares in issue as at the date of this annual report.

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

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

The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his associates abstaining from voting.

The amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2017, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS' INTEREST IN THE SHARES

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. Song Zhenghuan (Notes 2&5)	Beneficiary of a trust/ Beneficial owner/ Interest of controlled corporation	768,822,427 (L)	46.14%
Mr. Martin Pos	Beneficial owner	41,433,498 (L)	2.48%
Mr. Michael Nan Qu	Beneficial owner	2,400,000 (L)	0.14%
Mr. Liu Tongyou (Note 3)	Beneficial owner/ Interest of controlled corporation	31,457,573 (L)	1.88%
Ms. Fu Jinqiu (Notes 2&5)	Beneficiary of a trust/ Beneficial owner	768,822,427 (L)	46.14%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,000,000(L)	0.06%
Mr. Iain Ferguson Bruce	Beneficial owner	800,000(L)	0.04%
Mr. Shi Xiaoguang	Beneficial owner	800,000(L)	0.04%
Ms. Chiang Yun	Beneficial owner	800,000(L)	0.04%

Notes:

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

(2) Mr. Song and Ms. Fu are beneficiaries of Grappa Trust and Golden Phoenix Trust of which Credit Suisse Trust Limited is the trustee. See notes (2) to (4) of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of this interest.

(3) Mr. Liu has interest in the Shares of the Company through a controlled corporation, Sure Growth Investments Limited. See note (3) of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of this interest.

(4) Each of the Directors is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the SFO in respect of the Share Options of the Company granted to him/her, details are as follows:

Name of Director	Number of Share Options granted
Mr. Song Zhenghuan	1,390,000
Mr. Martin Pos	2,400,000
Mr. Michael Nan Qu	2,400,000
Mr. Liu Tongyou	2,400,000
Mr. Fu Jingqiu	1,390,000
Mr. Ho Kwok Yin, Eric	1,000,000
Mr. Iain Ferguson Bruce	800,000
Mr. Shi Xiaoguang	800,000
Ms. Chiang Yun	800,000

(5) Since Ms. Fu is Mr. Song's spouse, each of Mr. Song and Ms. Fu is deemed to have an interest in the 1,390,000 underlying Shares of the Company in respect of the Share Options of the Company granted to him/her.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2017, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Cayey Enterprises Limited (Note 2)	Interest of Controlled Corporation/ Beneficial Owner	548,994,581 (L)	32.94%
Credit Suisse Trust Limited (Singapore) (Note 2)	Trustee	548,994,581 (L)	32.94%
Grappa Holdings Limited (Note 2)	Interest of Controlled Corporation	548,994,581 (L)	32.94%
Pacific United Developments Limited ("PUD") (Note 2)	Beneficial Owner	409,518,229 (L)	24.57%
Sure Growth Investments Limited (Note 3)	Beneficial Owner	129,293,975 (L)	7.75%
FIL Limited	Investment Manager	109,101,000 (L)	6.54%
Credit Suisse Trust Limited (Guernsey) (Note 4)	Trustee	87,753,871 (L)	5.26%
Golden Phoenix Limited	Interest of Controlled Corporation	87,753,871 (L)	5.26%
Rosy Phoenix Limited (Note 4)	Beneficial Owner	87,753,871 (L)	5.26%
Pioneer Investment Management Ltd	Investment Manager	84,027,000 (L)	5.04%

Notes:

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

(2) PUD is owned as to approximately 51.32% by Cayey Enterprises Limited, which in turn is, as at 31 December 2017, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited (Singapore), which is the trustee holding 548,994,581 interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.

(3) Sure Growth Investments Limited is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 11.11% by Mr. Liu Tongyou, executive director of the Company and as to 5.56% by Mr. Michael Nan Qu, executive director of the Company.

(4) Rosy Phoenix Limited is indirectly held by Credit Suisse Trust Limited (Guernsey) as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the Golden Phoenix Trust and Credit Suisse Trust Limited (Guernsey) is the trustee holding 87,753,871 interest on trust for the beneficiaries that include Ms. Fu.

SUBSIDIARIES

The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2017 are set out in note 1 to the Financial Statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2017 set out in note 39 to the Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

MAJOR AND CONNECTED TRANSACTION

On 24 July 2017 (after trading hours), the Company and the Vendor entered into the Agreement, pursuant to which the Company has conditionally agreed to purchase the Sale Share from the Vendor at a consideration of US$360,000,000 (equivalent to approximately HK$2,812,176,000), subject to adjustment (the "**Acquisition**"). The consideration was satisfied as to US$120,485,816 (equivalent to approximately HK$941,187,000) by the Cash Consideration and as to the balance by the allotment and issue of the Consideration Shares at the issue price of HK$3.49 per Consideration Share(the "**Issue Price**") credited as fully paid.

The Vendor is an associate of Mr. Song, who is an executive Director, and hence a connected person of the Company under Chapter 14A of the Listing Rules. As one or more of percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constituted a major and connected transaction for the Company which required the approval of the Independent Shareholders by poll at the EGM.

At Completion, the Company (or its subsidiaries) and the Vendor (or one or more entities controlled by Mr. Song Zhenghuan and/or Ms. Fu Jingqiu) shall enter into the license with respect to the trademarks, domain names and related intellectual property rights ("**Relevant IPR**") to be transferred from the Vendor (or its associates) to the Company (or its subsidiaries) (the "**License**"), such that the Purchaser (or its subsidiaries) shall use the Relevant IPR before the completion of regulatory approval process and becoming the registered owner of such Relevant IPR which normally takes approximately 18-month to 24-month.

The License constitutes a continuing connected transaction for the Company under the Listing Rules. As the License is on normal commercial terms or better and on a royalty-free basis, it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and is fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For further details, please also refer to the circular of the Company dated 4 September 2017.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

Each of Mr. Song Zhenghuan, Mr. Liu Tongyou, Mr. Wang Haiye and Mr. Michael Nan Qu was considered to be interested in the transactions contemplated under the Agreement and had abstained from voting in respect of the resolution to approve the Agreement and Acquisition. Mr. Martin Pos and Mr. Jan Rezab considered that the terms and conditions of the Acquisition including the Issue Price to be fair and reasonable and on normal commercial terms and that the entering into of the Agreement was in the interest of the Company and the Shareholders as a whole.

Members of the Independent Board Committee (namely Mr. Iain Ferguson Bruce, Mr. Shi Xiaoguang, Ms. Chiang Yun, Mr. Jin Peng and Mr. Ho Kwok Yin, Eric) considered that (i) the Acquisition was on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) the entering into of the Agreement, while not in the ordinary and usual course of business of the Company, was in the interests of the Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPTED FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT, BUT SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS OF THE LISTING RULES

(a) First Pingxiang Lease Agreement

On 28 December 2012, Goodbaby Group Pingxiang Co., Ltd.* (好孩子集團平鄉有限公司) ("GGPX") and Goodbaby Child Products Pingxiang Co., Ltd.* (好孩子兒童用品平鄉有限公司) ("GCPX") entered into a lease agreement (the "2012/13/14 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Properties") to GCPX for a three-year period commencing from 1 January 2013 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPX entered into a renewal agreement (the "First Pingxiang Lease Agreement") to renew the 2012/13/14 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018.

Pursuant to the First Pingxiang Lease Agreement, GGPX agreed to lease the Properties to GCPX principally for production and for manufacturing plants and manufacturing support facilities purposes. The aggregate annual rental of the Properties payable by GCPX to GGPX was determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Properties under the First Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

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

The rental payable by GCPX to GGPX in relation to the Properties for the year ended 31 December 2017 was RMB8,573,000 (approximately HK$9,892,000).

The annual caps under the First Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB8,626,000, RMB9,001,000 and RMB9,376,000, respectively.

GGPX is a wholly-owned subsidiary of 好孩子集團有限公司 (Goodbaby Group Co., Ltd.*) ("GGCL"), a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the First Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

(b) Second Pingxiang Lease Agreement

On 18 March 2014, GGPX and Goodbaby Child Products Co., Ltd.* (好孩子兒童用品有限公司) ("GCPC") entered into a lease agreement (the "2014 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Property V") to GCPC commencing from 1 April 2014 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPC entered into a renewal agreement (the "Second Pingxiang Lease Agreement") to renew the 2014 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018. Pursuant to the Second Pingxiang Lease Agreement, GGPX agreed to lease Property V to GCPC principally for the usage as logistics warehouse purpose.

The aggregate annual rental payable by GCPC to GGPX under the Second Pingxiang Lease Agreement is determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Property V under the Second Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

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

The rental payable by GCPC to GGPX in relation to the Property V for the year ended 31 December 2017 was RMB1,612,000 (approximately HK$1,860,000).

The annual caps under the Second Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB1,616,000, RMB1,693,000 and RMB1,770,000, respectively.

REPORT OF THE BOARD OF DIRECTORS

GGPX is a wholly-owned subsidiary of GGCL, a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Second Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

(c) Kunshan Lease Agreement

On 7 October 2015, GCPC and GGCL entered into a lease agreement (the "Kunshan Lease Agreement") to renew the lease agreement dated 11 November 2010, pursuant to which GGCL agreed to lease certain premises located in Kunshan City, Jiangsu Province, PRC (the "Property VI") to GCPC for a three-year period commencing from 1 January 2016 and ending on 31 December 2018, for the usage as staff dormitories purpose.

The aggregate annual rental of the Property VI payable by GCPC to GGCL under the Kunshan Lease Agreement is determined with reference to the market rental rate as well as the qualities of the properties in the area surrounding the properties under the Kunshan Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

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

The rental payable by GCPC to GGCL in relation to the Property VI for the year ended 31 December 2017 was RMB667,000 (approximately HK$769,000).

The annual caps under the Kunshan Lease Agreement for each of the three years ending 31 December 2018 are RMB736,000, RMB773,000 and RMB812,000, respectively.

GGCL is a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGCL is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Kunshan Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

(d) 2015 Gift Supply Agreement

On 28 December 2012, GCPC and Goodbaby China Commercial Co., Ltd.* (好孩子(中國)商貿有限公司) ("GCCL") entered into a supply agreement (the "2012 Gift Supply Agreement"), pursuant to which GCCL agreed to supply infants' and children's products such as nursing products, paper products or toys (the "Gift Products") to GCPC to be used as free gifts for sales of GCPC's products, for a period of three years commencing on 1 January 2013 to 31 December 2015. On 7 October 2015, GCPC and GCCL entered into a renewal agreement (the "2015 Gift Supply Agreement") to renew the 2012 Gift Supply Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018.

Pursuant to the 2015 Gift Supply Agreement, GCCL agreed to supply the Gift Products to GCPC to be used as free gifts for sales of GCPC's products. The purchase prices of the Gift Products payable by GCPC to GCCL under the 2015 Gift Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those purchased from other independent suppliers of similar products. The terms of the 2015 Gift Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business. Upon receipt of the monthly invoice from GCCL, GCPC shall pay such transaction amount to GCCL within seven business days thereon.

Within three business days upon receipt by GCCL of purchase orders from GCPC, GCPC may collect at its own costs such Gift Products from the warehouse of GCCL, or GCCL may deliver such Gift Products to such venue of transportation receipt situated at Shanghai or Kunshan City, Jiangsu Province as designated by GCPC, for GCPC to transport at its own costs.

The purchases made by GCPC from GCCL in relation to the Gift Products for the year ended 31 December 2017 was RMB282,000 (approximately HK$326,000).

The annual caps under the 2015 Gift Supply Agreement for each of the three years ending 31 December 2018 are RMB7,000,000, RMB8,000,000 and RMB9,000,000, respectively.

GCCL is an indirect wholly owned subsidiary of Goodbaby China Holdings Limited (好孩子中國控股有限公司) ("GCHL"), which is held as to approximately 87.3% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCCL is an associate of Mr. Song Zhenghuan under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the 2015 Gift Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS OF THE LISTING RULES

(e) GCHL Master Supply Agreement

On 29 October 2012, GCPC entered into an agreement (the "2013 GCCL Supply Agreement") with GCCL for a period commenced from 1 January 2013 and ended on 31 December 2015, pursuant to which GCPC agreed to supply strollers, children's car seats, cribs, children's bicycles and other durable juvenile products (the "Products") to GCCL for domestic sales. On 7 October 2015, to further optimise and unify the Group's business relationship with GCCL, Goodbaby (Hong Kong) Limited ("GBHK"), which in turn holds 100% interest in GCPC and GCHL which in turn indirectly holds 100% interest in GCCL, entered into a master supply agreement (the "GCHL Master Supply Agreement"), pursuant to which GBHK agreed to supply, or procure its subsidiaries to supply, the Products to GCHL and its subsidiaries for domestic sales for a period commencing from 1 January 2016 and ending on 31 December 2018, and GCHL agreed to distribute or procure its subsidiaries to distribute the Products supplied by GBHK and its subsidiaries in the domestic market.

The purchase prices of the Products payable by GCHL and its subsidiaries to GBHK or its subsidiaries under the GCHL Master Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those offered to independent purchasers of the Group's products. The terms of the GCHL Master Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

For the period from 1 January 2016 to 31 December 2016, payment pursuant to the GCHL Master Supply Agreement has been made within 120 days upon the date of invoice. Thereafter, payment term pursuant to the GCHL Master Supply Agreement would be determined based on annual review and adjustment based on the actual turnover days of the accounts receivable in the previous year, but in any event not more than 120 days.

REPORT OF THE BOARD OF DIRECTORS

Within three business days upon receipt by GBHK and/or its subsidiaries of specific purchase orders from GCHL and its subsidiaries, GCHL and its subsidiaries may collect at its own costs such Products from the warehouse of GBHK and/or its subsidiaries, or GBHK and/or its subsidiaries may deliver such Products to such venue of transportation receipt situated in Shanghai or Kunshan City, Jiangsu Province as designated by GCHL and its subsidiaries, for GCHL and/or its subsidiaries to transport at its own costs.

The transaction between GBHK and its subsidiaries and GCHL and its subsidiaries in relation to the Products sold for the year ended 31 December 2017 was RMB603,386,000 (approximately HK$696,275,000).

The annual caps under the GCHL Master Supply Agreement for each of the three years ending 31 December 2018 are RMB1,110,000,000, RMB1,450,000,000 and RMB1,870,000,000, respectively.

GCHL is a company which is held as to approximately 87.3% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCHL is an associate of the Chairman under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the GCHL Master Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the circular of the Company dated 5 November 2015.

After the major and connected transaction completed at 23 October 2017, details of which is set out on page 27 of this annual report, the transactions under the GCHL Master Supply Agreement has been substantially eliminated.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual cap amounts.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group has a total of 15,516 full-time employees (as at 31 December 2016, the Group had a total of 11,181 full-time employees). For the year ended 31 December 2017, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,429.1 million (2016: HK$1,386.5 million). The increase in cost of employee is mainly attributable to the internal promotion of talented employees into senior or leadership roles, the recruitment of diverse talent into our global workforce and the Acquisition. 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.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

While maintaining our own production and operation capabilities, the Company also has reinforced the fusion of environmental protection, safety, health and social responsibility into our corporate development strategies by establishing the ESG report working team in line with our business development. The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, production and operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers our staff, shareholders and potential investors, government authorities, suppliers, community individuals, media and consumers as our key stakeholders, and values highly the expectations and opinions of our stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an independent ESG report has been published.

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the Environmental, Social and Governance section in the annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

CORPORATE GOVERNANCE

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

CONFIRMATION OF INDEPENDENT STATUS

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

REPORT OF THE BOARD OF DIRECTORS

INDEMNITY AND INSURANCE PROVISIONS

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against Directors. Also, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

EXCHANGE RISKS

Details of the exchange risks are set out in note 42 to the Financial Statements.

PURCHASE, SALE OR RE-PURCHASE OF SHARES

There was no purchase, sale and re-purchase of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2017.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

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

Changes in Directors' biographical details since the date of the 2017 interim report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B) (1) of the Listing Rules, are set out below.

INCREASE OF CHIEF EXECUTIVE OFFICER'S REMUNERATION

The Remuneration Committee of the Company has recommended at a meeting held on 10 November 2017 to increase the remuneration of Mr Martin Pos with effect from 10 November 2017, details of which are listed as follows, and the Board has approved such increment at a board meeting held on the same day:-

Name	Position	Annual remuneration before 10 November 2017	Annual remuneration with effect from 10 November 2017
Martin Pos	Chief Executive Officer	fixed annual salary of EUR500,000	fixed annual salary of EUR 1,200,000

Saved 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 2017 interim report of the Company.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 44 to the Financial Statements.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five financial years is set out from page 224 to page 225 of this report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENT PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules for the year ended 31 December 2017.

AUDITORS

The financial statements of the Company for the year ended 31 December 2017 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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

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

26 March 2018

INDEPENDENT AUDITORS' REPORT

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

OPINION

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 223, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by HKICPA, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Business Combinations	
During the year ended 31 December 2017, the Group completed the acquisition of Oasis Dragon Limited and its subsidiaries (together, the "Oasis Dragon Group") at a total consideration of approximately HK$3,413 million. The management used significant estimates in accounting for the acquisition, especially for the preparation of the necessary purchase price allocation. The Group engaged an external independent appraiser to perform the valuation. The appraisal on the fair value of the identifiable assets and liabilities at the acquisition date was in the process of finalisation, and a provisional goodwill of HK$ 1,908 million was recognised based on a preliminary allocation of the purchase consideration as at the acquisition date. The Group's disclosures about the acquisition are disclosed in Note 2.4 and Note 35 to the financial statements.	Our audit procedures, among others, included an assessment of the valuation methodologies adopted by the appraiser and the assumptions used in valuation of the assets acquired and liabilities assumed. We involved our internal valuation expert to assist us with assessing the competency, capabilities and objectivity of the external appraiser, reviewing the methodologies and the assumptions by reference to the historical experience and the available market information. We have also evaluated the Group's disclosure on the business combinations in note 35 to the financial statements.
Impairment assessment of goodwill and intangible assets with indefinite lives	
The goodwill and other intangible assets with indefinite lives of the Group arose from business combinations, amounted to HK$2,789 million and HK$1,765 million as at 31 December 2017, which represented 25% and 16% of the total assets, respectively. The Group is required to perform impairment testing on goodwill and intangible assets with indefinite life annually. Management's assessment process involves significant estimates and judgements, including assessing expected future cash flow forecasts, associated growth rates, budgeted gross margins and the discount rates applied. The Group's disclosures about goodwill and intangible assets with indefinite lives are included in Note 2.4, Note 3 and Note 16 to the financial statements.	Our audit procedures, among others, included an assessment of the evaluation of management and testing of key assumptions, methodologies, cash-generating unit determination, cash flow forecast and other data used by the Group. In performing audit procedures, we checked the sales assumption to historical actual sales with growth rates comparable to the market and assessed budgeted gross margin against historical trend and the discount rate assumption against cost of equity and cost of debt of comparable companies. We also Involved our internal specialists to assist us in assessing the assumptions and methodologies used by the Group. We also focused on the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is more sensitive.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for product liabilities	
As at 31 December 2017, the provisions for product liabilities amounted to HK$78.2 million. The Group made provisions for product liabilities in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The provision for product liabilities involved significant management estimation and judgments based upon estimated future costs to be incurred in claims. The Group engaged an external valuation expert to perform an estimation of product liabilities obligation, and there were significant estimates included in the management's analysis and projection, such as discount rates used and an assessment on possible outcome of the claims based on historical experience. The Group's disclosures about provision for product liabilities are included in Note 2.4, Note 3 and Note 27 to the financial statements.	Our audit procedures, among others, included understanding the basis for the provisions made and assessing the consistency of the provisioning policy applied. We also assessed management estimation and key assumptions by reference to the historical experience and trend, and checked subsequent claims after the end of the reporting period. In performing our audit procedures, we involved our internal valuation specialists to assess the valuation methodology used and key assumptions applied to calculate the provision and to perform a sensitivity analysis. We also obtained confirmations from external legal counsels for those claims in progress regarding product liabilities.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Forward currency contract	
The Group enters into derivative financial instrument contracts in order to manage its exposure to foreign currency risk, which arise during the normal course of its business. These contracts gave rise to derivative financial assets of HK$22.3 million and derivative financial liabilities of HK$4.4 million as at 31 December 2017. Cashflow hedge accounting under IFRSs is applied for these arrangements. The cashflow hedge accounting can be complex and the Group has entered into a large number of hedging contracts. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of complexity and is subject to an inherent risk of error. The Group's disclosures about foreign currency contracts are included in Note 2.4 and Note 24 to the financial statements.	Our audit procedures, among others, included assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and reviewing the hedge documentation. We independently obtained statements from banks to compare against the fair values of the derivatives recorded, and to verify the existence and ownership of the derivatives. In performing our audit procedures, we engaged our financial instrument valuation specialists to re- perform year end valuations of derivative financial instruments on a sample basis and compare these valuations with those recorded by the Group. We also re-computed hedge effectiveness and reviewed the corresponding fair value gains or losses recorded in other comprehensive income and profit or loss.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Siu Fung, Terence.

Ernest & Young
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		(HK$'000)	
Revenue	5	7,142,566	6,238,179
Cost of sales		(4,395,786)	(4,126,715)
Gross profit		2,746,780	2,111,464
Other income and gains	5	41,115	59,101
Selling and distribution expenses		(1,332,515)	(982,468)
Administrative expenses		(1,103,495)	(924,260)
Other expenses		(39,429)	(50,199)
Finance income	6	4,617	3,347
Finance costs	7	(65,506)	(55,166)
Share of profits and losses of joint ventures		(29)	26
PROFIT BEFORE TAX	**8**	**251,538**	**161,845**
Income tax (expense)/credit	11	(67,132)	50,395
PROFIT FOR THE YEAR		**184,406**	**212,240**
Attributable to:			
Owners of the parent		179,350	207,390
Non-controlling interests		5,056	4,850
		184,406	212,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.15	0.19
Diluted			
For profit for the year (HK$)		0.15	0.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	2017	2016
	(HK$'000)	
PROFIT FOR THE YEAR	184,406	212,240
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments arising during the period	(4,806)	–
Reclassification adjustments for losses included in the consolidated statement of profit or loss	20,165	–
Income tax effect	(2,899)	–
	12,460	–
Exchange differences on translation of foreign operations	251,305	(113,144)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	263,765	(113,144)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	2,942	4,345
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	2,942	4,345
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**266,707**	**(108,799)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**451,113**	**103,441**
Attributable to:		
Owners of the parent	443,445	100,348
Non-controlling interests	7,668	3,093
	451,113	**103,441**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	31 December 2017	31 December 2016
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,040,743	858,194
Prepaid land lease payments	15	55,740	53,895
Goodwill	16	2,789,325	811,662
Other intangible assets	17	2,371,199	655,866
Investment in joint ventures		5,216	814
Deferred tax assets	30	112,980	130,880
Other long-term assets	18	7,224	7,845
Total non-current assets		6,382,427	2,519,156
CURRENT ASSETS			
Inventories	19	1,861,276	1,099,846
Trade and notes receivables	20	1,171,738	644,440
Prepayments and other receivables	21	337,215	187,381
Due from related parties	39	–	284,395
Available-for-sale investments	22	138,088	–
Cash and cash equivalents	23	952,153	758,153
Time deposits	23	84,054	–
Pledged time deposits	23	15,370	25,367
Derivative financial instruments	24	22,250	–
Total current assets		4,582,144	2,999,582
CURRENT LIABILITIES			
Trade and bills payables	25	1,312,573	926,464
Other payables, advances from customers and accruals	26	904,996	557,925
Due to related parties	39	99,143	–
Income tax payable		55,483	28,307
Provision	27	39,200	63,928
Interest-bearing bank loans and other borrowings	28	1,341,663	278,236
Derivative financial instruments	24	4,408	–
Defined benefit plan liabilities	29	391	388
Dividends payable		8	8
Total current liabilities		3,757,865	1,855,256

continued/···

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	31 December 2017	31 December 2016
		(HK$'000)	
NET CURRENT ASSETS		**824,279**	**1,144,326**
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,206,706**	**3,663,482**
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	28	1,395,136	950,521
Provision	27	54,717	63,708
Defined benefit plan liabilities	29	11,049	12,717
Other liabilities	31	14,089	12,475
Deferred tax liabilities	30	565,848	145,899
Total non-current liabilities		2,040,839	1,185,320
Net assets		5,165,867	2,478,162
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	16,662	11,151
Reserves	34	5,091,222	2,429,129
		5,107,884	2,440,280
Non-controlling interests		57,983	37,882
Total equity		5,165,867	2,478,162

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(HK$'000)												
	(note 32)			*(note 34)*		*(note 29)*	*(note 34)*						
At 1 January 2016	11,086	1,208,078	30,907	149,499	39,587	(6,186)	153,975	(20,244)	–	798,556	2,365,258	42,844	2,408,102
Profit for the year	–	–	–	–	–	–	–	–	–	207,390	207,390	4,850	212,240
Remeasurement effects of defined benefit plans	–	–	–	–	–	4,345	–	–	–	–	4,345	–	4,345
Exchange differences on translation	–	–	–	–	(111,387)	–	–	–	–	–	(111,387)	(1,757)	(113,144)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(111,387)**	**4,345**	**–**	**–**	**–**	**207,390**	**100,348**	**3,093**	**103,441**
Dividends	–	(55,679)	–	–	–	–	–	–	–		(55,679)	(8,055)	(63,734)
Share options exercised	65	19,447	(5,666)	–	–	–	–	–	–	–	13,846	–	13,846
Profit appropriation	–	–	–	11,466	–	–	–	–	–	(11,466)	–	–	–
Equity-settled share option arrangements	–	–	16,507	–	–	–	–	–	–	–	16,507	–	16,507
At 31 December 2016 and 1 January 2017	**11,151**	**1,171,846**	**41,748**	**160,965**	**(71,800)**	**(1,841)**	**153,975**	**(20,244)**	**–**	**994,480**	**2,440,280**	**37,882**	**2,478,162**
Profit for the year	–	–	–	–	–	–	–	–	–	179,350	179,350	5,056	184,406
Remeasurement effects of defined benefit plans	–	–	–	–	–	2,942	–	–		–	2,942	–	2,942
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	12,460	–	12,460	–	12,460
Exchange differences on translation	–	–	–	–	248,693	–	–	–	–	–	248,693	2,612	251,305
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**248,693**	**2,942**	**–**	**–**	**12,460**	**179,350**	**443,445**	**7,668**	**451,113**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	14,557	14,557
Dividends	–	(55,885)	–	–	–	–	–	–	–	–	(55,885)	(2,124)	(58,009)
Issue of shares	5,361	2,246,258	–	–	–	–	–	–	–	–	2,251,619	–	2,251,619
Share issue expense	–	(17,535)	–	–	–	–	–	–	–	–	(17,535)	–	(17,535)
Share options exercised	150	50,790	(13,890)	–	–	–	–	–	–	–	37,050	–	37,050
Profit appropriation	–	–	–	16,799	–	–	–	–	–	(16,799)	–	–	–
Equity-settled share option arrangements	–	–	8,910	–	–	–	–	–	–	–	8,910	–	8,910
As at 31 December 2017	**16,662**	**3,395,474***	**36,768***	**177,764***	**176,893***	**1,101***	**153,975***	**(20,244)***	**12,460***	**1,157,031***	**5,107,884**	**57,983**	**5,165,867**

* These reserve accounts comprise the consolidated reserves of HK$5,091,222,000 (2016: HK$2,429,129,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	(HK$'000)	
Profit before tax	251,538	161,845
Adjustments for:		
Depreciation and amortisation	228,971	198,740
Loss on disposal of items of property, plant and equipment	9,457	22,991
Fair value losses, net Cash flow hedges (transfer from equity)	(1,435)	–
Derivative instruments - transactions not qualifying as hedges	(3,434)	–
Share of profits and losses of joint ventures	29	(26)
Write-down of inventories	7,970	20,252
Provision for impairment of receivables	34,286	8,076
Provision for impairment of property, plant and equipment	–	6,797
Increase in derivative financial assets	(22,250)	–
Increase in derivative financial liabilities	4,408	–
Interest expense	65,506	55,166
Interest income	(4,617)	(3,347)
Gain on wealth investment products received	(264)	(5,879)
Decrease in defined benefit plan liabilities	(1,665)	(1,576)
Increase in other liabilities	1,614	1,898
(Increase)/decrease in inventories	(380,676)	124,658
(Increase)/decrease in trade and notes receivables	(202,733)	43,083
Increase in prepayments and other receivables	(48,174)	(44,110)
(Increase)/decrease in amounts due from related parties	(41,040)	19,363
Decrease in amounts due to related parties	(2,638)	–
Decrease/(increase) from other long-term assets	621	(4,208)
Increase in pledged time deposits	(15,370)	–
Increase/(decrease) in trade and bills payables	181,421	(14,741)
Increase in other payables, advances from customers and accruals	62,804	68,001
(Decrease)/increase in provision	(33,719)	11,551
Income tax paid	(28,075)	(132,533)
Net cash flows generated from operating activities	62,535	536,001

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		(HK$'000)	
Investment in a joint venture		(4,370)	–
Acquisition of subsidiaries		(1,112,938)	–
Purchase of property, plant and equipment		(284,931)	(264,475)
Purchase of intangible assets		(11,595)	(14,465)
Proceeds from disposal of available-for-sale financial investments		–	304,001
Purchases of available-for-sale investments		(138,088)	–
Interest received		3,161	3,705
Gain on wealth investment products received		264	5,879
(Increase)/decrease in time deposits		(84,054)	2,726
Repayment of advances to related parties		329,193	–
Proceeds from disposal of intangible assets		–	264
Proceeds from disposal of items of property, plant and equipment		19,211	35,753
Net cash flows (used in)/generated from investing activities		(1,284,147)	73,388
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		37,050	13,846
Proceeds from borrowings		3,329,686	901,742
Repayment of borrowings		(1,899,180)	(1,342,273)
Interest paid		(61,626)	(53,108)
Decrease in pledged time deposits		25,367	1,832
Dividends paid		(55,885)	(55,679)
Net cash flows generated from/(used in) financing activities		1,375,412	(533,640)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**153,800**	**75,749**
Cash and cash equivalents at beginning of year		758,153	705,291
Effect of foreign exchange rate changes,net		40,200	(22,887)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**952,153**	**758,153**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

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.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at the reporting date are as follows:

Name of company	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	–	HK$1,000	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC")	The People's Republic of China ("PRC"), 18 November 1994	–	100%	US$52,000,000	Manufacture, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
Ningbo Goodbaby Child Products Co., Ltd. ("GCPN")	PRC, 9 September 1996	–	85%	RMB10,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Paragon Child Product Co., Ltd. ("PCPC")	PRC, 2009	–	100%	RMB10,000,000	Manufacture, distribution and sale of bicycles, sports utilities, e-cars and wooden products.
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX")	PRC, 26 December 2011	–	100%	RMB2,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Jiangsu EQO Testing Services Co., Ltd. ("EQTC")	PRC, 30 November 2012	–	100%	RMB5,000,000	Testing of children's products, tools, electronic products and advisory for risk valuation of product quality
Serena Merger Co., Inc. ("SERE")	U.S., 16 May 2014	–	100%	US$1,000	Investment holding
Evenflo Company, Inc. ("EFCD")	U.S., 1 October 1992	–	100%	US$86,500	Manufacture of baby care products
Muebles Para Ninos De Baja, S.A. De C.V. ("EFMX")	Mexico, 29 June 1987	–	100%	Peso1,720,000	Manufacture of baby care products
Evenflo Canada Inc. ("EFCA")	Canada, 18 March 1991	–	100%	US$7,000	Manufacture of baby care products

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at the reporting date are as follows: (Continued)

Name of company	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Columbus Trading-Partners GmbH & Co. KG ("CTPE")	Germany, 26 February 2016	–	100%	EUR100	Trading and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Goodbaby Czech Republic s.r.o. ("GBCZ")	Germany, 25 August 2016	–	100%	CZK200,000.00	IT services and a share service center
Goodbaby (Europe) Gmbh & Co KG ("GEGC")	Germany, 28 January 2014	–	100%	EUR100	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
Cybex GmbH ("CBGM")	Germany, 5 March 2014	–	100%	EUR33,400	Trading of car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
GB GmbH ("GBGM")	Germany, 21 August 2015	–	100%	EUR25,000	Investment holding
Columbus Trading Partners USA Inc. ("CBUS")	U.S., 24 November 2014	–	100%	US$1	Investment holding
Columbus Trading Partners Scandinavia A/S ("CBDK")	Denmark, 1 September 2015	–	70%	DKK500,000	Trading of car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children and any related activities of the board of directors
Oasis Dragon Limited ("ODLI")	Samoa, 13 November 2015	100%	–	US$1	Investment holding
Goodbaby (China) Retail & Service Company ("GRCN")	PRC, 11 May 2016	–	100%	RMB50,000,000	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS")	PRC, 20 January 1998	–	100%	RMB10,000,000	Distribution and retail business of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS")	PRC, 19 March 2015	–	80%	RMB10,000,000	Wholesale and retail of children's products

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

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 2017. 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.

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 36 to the financial statements upon the adoption of amendments to IAS 7, which 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[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*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests Associates and Joint Venture*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Annual Improvements *2015-2017 Cycle*	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

Further information about those IFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying these standards.

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

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

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and 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 will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade 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 adoption now.

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

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 will adopt IFRS 15 from 1 January 2018. And the Group plans to adopt the transitional provisions in IFRS15 to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings as at 1 January 2018. In addition, the Group plans to apply the new requirement only to the contract that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

IFRS 16, issued in January 2016, 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, or relates to a class of property, plant and equipment to which the revaluation model in applied. 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. IFRS 16 requires lessees and lessors to make a more extensive disclosure than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 37 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$261,860,000.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

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

Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and shore term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or joint venture is included as part of the Group's investment in associate or a joint venture.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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

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

FAIR VALUE MEASUREMENT

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT (Continued)

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of items of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

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

	Estimated useful lives	Estimated residual value
Freehold land	Indefinite	—
Buildings	20 years	0-10%
Plant and machinery	5-15 years	0-10%
Motor vehicles	3-5 years	0-10%
Furniture and fixtures	3-15 years	—
Leasehold improvements	The lesser of lease terms and useful lives	—

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks are capitalised and amortised using the straight-line method over their estimated useful lives of ten to thirty years except for certain trademarks amounted to HK$1,764,692,000 (2016: HK$458,210,000) acquired through the business combinations of Columbus Holding GmbH, WP Evenflo Group Holdings, Inc. and Oasis Dragon Limited whose useful lives are indefinite, as their legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, and based on future financial performance of the Group, it is expected to generate positive cash flows indefinitely.

Computer software

Expenditure on computer software is capitalised and amortised using the straight-line method over its estimated useful life of five years to ten years.

Patents, non-compete agreement and customer relationship

Expenditure on acquired patents, a non-compete agreement and customer relationship is capitalised and amortised using the straight-line method over their estimated useful lives of five to twenty years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

Research and development costs

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

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

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

LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Loans and receivables

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

Available-for-sale financial investments

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

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Loans and borrowings

After initial recognition, interest-bearing borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Put option over non-controlling interests

During the process of acquiring the majority equity interests of a subsidiary, the Group provided the non-controlling shareholder the right to dispose of its equity interests to the Group. The equity interests in the subsidiary held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiary held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as a financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Initial recognition and subsequent measurement (Continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

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

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

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

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

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

CONTRACTS FOR SERVICES

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS

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

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS

Retirement benefits

Pursuant to the relevant regulations, the Group's subsidiaries which operate in Mainland China participate in a local municipal government retirement benefit scheme, whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme mentioned above. Contributions under the scheme are charged to the statement of profit or loss as incurred. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's U.S. operations and most other non-U.S. subsidiaries have separate defined contribution plans. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. The Group's contributions to the plans are based on employee contributions or compensation.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Defined benefit plans

The Group operates defined benefit pension plans with details summarised in note 29. The costs of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the consolidated profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “cost of sales” and “administrative expenses” in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

These financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and a joint venture are currencies other than the HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and a joint venture are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint venture which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose suitable discount rates in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2017 was approximately HK$2,789,325,000 (2016: HK$811,662,000). Further details are given in note 16.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Details of unrecognised tax losses as at the end of the reporting period are contained in note 30.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the credit trade and worthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 20.

Write-down of inventories

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

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 14 to the consolidated financial statements.

Provisions

Provisions for product warranties granted by the Group on its products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

The Group also makes provision for product liabilities which is based on estimated future costs to be incurred in claims. There are significant estimates included in the projection, which are the discount rate used and assessment on the possibility of outcome of the claims based on historical experience.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Defined benefit plans

The Group operates and maintains defined retirement benefit plans. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rate and healthcare trend rates.

Additional information regarding the retirement benefit plan is disclosed in note 29 to the financial statements.

4. 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, manufacture and sale 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, manufacture and sale of car seats and accessories under the Group's own brands and third parties' brands; and

(c) Others segment, which engages in the research, design, manufacture and sale of other children's products under the Group's own brands and third parties' brands.

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Strollers and accessories	Car seats and accessories	Others	Consolidated
	(HK$'000)			
Segment revenue				
Sales to external customers	2,275,317	2,877,287	1,989,962	7,142,566
Segment results	**801,111**	**1,315,575**	**630,094**	**2,746,780**
Reconciliation:				
Other income and gains				41,115
Corporate and other unallocated expenses				(2,436,010)
Other expenses				(39,429)
Finance income				4,617
Finance costs				(65,506)
Share of profits and losses of joint ventures				(29)
Profit before tax				**251,538**
Other segment information:				
Impairment losses recognised in the statement of profit or loss	9,298	17,833	15,125	42,256
Depreciation and amortisation	98,648	76,174	54,149	228,971

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016

	Strollers and accessories	Car seats and accessories	Others	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 and gains				59,101
Corporate and other unallocated expenses				(1,906,728)
Other expenses				(50,199)
Finance income				3,347
Finance costs				(55,166)
Share of profits and losses of joint ventures				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

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	European market	North America market	Mainland China market	Other overseas markets	Total
	(HK$'000)				
Year ended 31 December 2017					
Segment revenue:					
Sales to external customers	2,032,216	2,819,528	1,681,228	609,594	7,142,566
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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION (Continued)

(b) Non-current assets

	2017	2016
	(HK$'000)	
Mainland China	4,360,049	624,385
North America	1,023,544	1,026,222
Europe	879,492	732,321
	6,263,085	2,382,928

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

INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2017, revenue from sales to a major customer of third party accounting for 10% or more of the total net sales of the Group is HK$814,170,000 (2016: HK$738,414,000). The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and others segments, including sales to a group of entities which are known to be under common control with this customer. There was no other single customer accounted for 10% or more of the total net sales of the Group in 2017. There was no other single customer accounted for 10% or more of the total net sales of the Group in 2016, except a related party disclosed in note 39 (b).

5. REVENUE, OTHER INCOME AND GAINS

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

	2017	2016
	(HK$'000)	
Revenue:		
Sales of goods	7,142,566	6,238,179
Other income and gains:		
Government grants (note (a))	25,658	16,916
Gain on sale of materials	3,317	1,167
Gain on wealth investment products (note (b))	264	5,879
Compensation income (note (c))	3,747	4,177
Service fee income (note (d))	373	1,095
Foreign exchange differences, net	–	27,827
Fair value gains, net		
Cash flow hedges (transfer from equity)	1,435	–
Derivative instruments – transactions not qualifying as hedges	3,434	923
Others	2,887	1,117
Total	41,115	59,101

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.

NOTES TO FINANCIAL STATEMENTS

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6. FINANCE INCOME

	2017	2016
	(HK$'000)	
Interest income on bank deposits	4,617	3,347

7. FINANCE COSTS

	2017	2016
	(HK$'000)	
Interest on bank loans	65,506	55,166

8. PROFIT BEFORE TAX

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

	2017	2016
	(HK$'000)	
Cost of inventories sold	4,395,786	4,126,715
Cost of services provided	505	848
Depreciation of items of property, plant and equipment	195,180	175,001
Amortisation of intangible assets	31,811	21,643
Amortisation of land lease payments	1,980	2,096
Research and development costs ("R&D")	376,077	308,814
Lease payments under operating leases in respect of properties	117,502	92,618
Auditors' remuneration	9,148	8,403
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	1,398,483	1,330,304
Pension scheme contributions	60,037	57,879
Pension scheme costs (defined benefit plans) (including administrative expense)	3,014	1,994
Share option expense	8,910	16,507
	1,470,444	1,406,684
Transaction costs for acquisition of subsidiaries	27,298	–
Net foreign exchange loss/(gain)	23,217	(27,827)
Impairment of trade receivables	34,286	8,076
Impairment of property, plant and equipment	–	6,797
Write-down of inventories	7,970	20,252
Product warranties and liabilities	31,205	41,419
Fair value gains, net		
Cash flow hedges (transfer from equity)	(1,435)	–
Derivative instruments – transactions not qualifying as hedges	(3,434)	(923)
Loss on disposal of items of property, plant and equipment	9,457	22,991
Bank interest income	**(4,617)**	**(3,347)**

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017	2016
	(HK$'000)	
Fees	2,318	1,686
Other emoluments:		
Salaries, allowances and benefits in kind	26,626	18,006
Performance-related bonuses	11,733	280
Pension scheme contributions	677	252
	39,036	18,538
	41,354	20,224

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2017	2016
	(HK$'000)	
Iain Ferguson Bruce	468	446
Shi Xiaoguang	312	297
Chiang Yun	312	297
Jin Peng*	200	–
	1,292	**1,040**

There were no other emoluments payable to the independent non-executive directors in 2017 (2016: Nil).

* The Board announced the appointment of Mr. Jin Peng as an independent non-executive director, with effect from 21 February 2017.

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2017

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
	(HK$'000)				
Executive directors:					
Song Zhenghuan	–	3,917	–	–	3,917
Michael, Qu Nan	–	3,180	1,929	61	5,170
Martin Pos	–	7,536	5,425	–	12,961
Liu Tongyou**	–	3,152	2,192	–	5,344
Yang Ilcheul**	–	579	–	–	579
Xia Xinyue**	–	602	1,645	26	2,273
Wang Haiye**	78	1,908	–	11	1,997
Jan Rezab**	–	5,752	542	579	6,873
	78	26,626	11,733	677	39,114
Non-executive directors:					
Eric, Ho Kwok Yin	662	–	–	–	662
Fu Jinqiu**	286	–	–	–	286
	948	–	–	–	948

** The Board announced that Mr. Liu Tongyou has been appointed as an executive director, with effect from 21 February 2017. The Board announced that each of Mr. Yang Ilcheul and Mr. Xia Xinyue has been appointed as an executive director and Ms. Fu Jinqiu has been appointed as a non-executive director, with effect from 10 November 2017.

** Mr. Jan Rezab and Mr. Wang Haiye has tendered their resignation as executive directors, both with effect from 10 November 2017.

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION (Continued)

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

2016

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
	(HK$'000)				
Executive directors:					
Song Zhenghuan	–	3,528	–	–	3,528
Wang Haiye	–	3,867	–	11	3,878
Michael, Qu Nan	–	3,166	–	60	3,226
Martin Pos	–	6,324	–	–	6,324
Jan Rezab***		1,121	280	181	1,582
	–	**18,006**	**280**	**252**	**18,538**
Non-executive director:					
Eric, Ho Kwok Yin	**646**	**–**	**–**	**–**	**646**

*** The Board announced the appointment of Mr. Jan Rezab as an executive director, with effect from 25 July 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration in 2017 (2016: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2016: three), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2016: two) non-director, highest paid employee for the year are as follows:

	2017	2016
	(HK$'000)	
Salaries, allowances and benefits in kind	3,236	7,769
Performance related bonus	464	–
Pension scheme contributions	86	198
	3,786	7,967

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

	Number of employees	
	2017	2016
HK$3,500,001 to HK$4,000,000	1	2

None of the directors or highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2016: None).

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX

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

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

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the year. The state income tax rates are 5% to 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 federal income tax rate was lowered to 21% effective from 1 January 2018, as a result of U.S. tax reform enacted in December 2017.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 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 subsidiaries registered in Denmark are subject to income tax based on the taxable income at the rate of 24.5%.

The Group's subsidiary registered in the 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, two of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") and Jiangsu EQO Testing Services Co., Ltd. ("EQTC") are qualified as "High and New Technology Enterprises" and are entitled to a preferential tax rate of 15% from 2017 to 2019 and 2016 to 2018 respectively.

11. INCOME TAX (Continued)

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

	2017	2016
	(HK$'000)	
Current - income tax		
Charge for the year	51,809	89,064
Underprovision in prior years	–	122
Deferred income tax (note 30)	15,323	(139,581)
Income tax expense/(credit) reported in the statement of profit or loss	67,132	(50,395)

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:

	2017	2016
	(HK$'000)	
Profit before tax	251,538	161,845
Expected income tax based on different rates applicable to profits in the countries covered	67,403	47,539
Effect of changes in US tax rate on deferred tax asset balance*	21,373	–
Temporary difference for which deferred tax assets have not been recognised	353	18,102
Recognition of deferred tax assets related to previously unrecognised deductible temporary differences and tax losses	–	(104,023)
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(18,510)	(8,783)
Underprovision in prior years	–	122
Tax loss utilised from prior years	–	(3,835)
Tax effect on non-taxable income	(11,222)	(6,084)
Tax effect on non-deductible expenses	7,735	6,567
Income tax expense/(credit)	67,132	(50,395)

* Tax reform was enacted in U.S. on December 22, 2017, which led to the federal tax rate change on ending deferred taxes from 35% to 21% and a deemed repatriation of unremitted foreign earnings.

NOTES TO FINANCIAL STATEMENTS

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12. DIVIDENDS

	2017	2016
	(HK$'000)	
Final dividend proposed subsequent to the reporting period		
– HK$ 0.05 (2016: HK$0.05) per ordinary share	83,313	55,759

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,222,434,000 in issue during the year (2016: 1,112,749,000).

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

13. EARNINGS PER SHARE (Continued)

The calculation of earnings per share is based on:

	2017	2016
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	179,350	207,390

	2017	2016
	('000)	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,222,434	1,112,749
Effect of dilution - weighted average number of ordinary shares:		
Share options	128	5,144
Total	1,222,562	1,117,893

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14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2017

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2016 and at 1 January 2017:							
Cost	540,890	812,824	11,209	339,032	78,155	77,672	1,859,782
Accumulated depreciation	(246,777)	(475,246)	(8,028)	(226,355)	(45,182)	–	(1,001,588)
Net carrying amount	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**
At 1 January 2017, net of accumulated depreciation	294,113	337,578	3,181	112,677	32,973	77,672	858,194
Additions	6,758	91,163	1,418	59,832	10,560	115,200	284,931
Acquisition of subsidiaries	–	1,035	2,563	7,468	39,265	–	50,331
Disposals	(3,103)	(10,182)	(69)	(12,831)	(2,483)	–	(28,668)
Depreciation provided during the year	(27,270)	(98,928)	(1,164)	(57,621)	(10,197)	–	(195,180)
Transfers	8,531	82,019	205	13,504	179	(104,438)	–
Impairment	–	–	–	–	–	–	–
Exchange realignment	16,478	33,978	391	8,516	5,045	6,727	71,135
At 31 December 2017, net of accumulated depreciation And impairment	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**
At 31 December 2017:							
Cost	586,471	972,755	16,282	416,196	128,956	95,161	2,215,821
Accumulated depreciation and impairment	(290,964)	(536,092)	(9,757)	(284,651)	(53,614)	–	(1,175,078)
Net carrying amount	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2016

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2015 and at 1 January 2016:							
Cost	562,441	840,035	10,790	307,033	69,077	36,240	1,825,616
Accumulated depreciation	(238,365)	(470,448)	(7,455)	(190,425)	(40,154)	–	(946,847)
Net carrying amount	**324,076**	**369,587**	**3,335**	**116,608**	**28,923**	**36,240**	**878,769**
At 1 January 2016, net of accumulated depreciation	324,076	369,587	3,335	116,608	28,923	36,240	878,769
Additions	19,936	68,700	1,343	50,220	13,292	110,984	264,475
Disposals	(22,956)	(31,111)	(3)	(3,033)	(1,164)	(477)	(58,744)
Depreciation provided during the year	(25,372)	(83,500)	(1,100)	(57,686)	(7,343)	–	(175,001)
Transfers	13,449	40,396	–	12,542	–	(66,387)	–
Impairment	(839)	(5,958)	–	–	–	–	(6,797)
Exchange realignment	(14,181)	(20,536)	(394)	(5,974)	(735)	(2,688)	(44,508)
At 31 December 2016, net of accumulated depreciation And impairment	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**
At 31 December 2016:							
Cost	540,890	812,824	11,209	339,032	78,155	77,672	1,859,782
Accumulated depreciation and impairment	(246,777)	(475,246)	(8,028)	(226,355)	(45,182)	–	(1,001,588)
Net carrying amount	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**

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15. PREPAID LAND LEASE PAYMENTS

	2017	2016
	(HK$'000)	
At beginning of year	53,895	59,608
Amortisation	(1,980)	(2,096)
Exchange realignment	3,825	(3,617)
At end of year	**55,740**	**53,895**

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2016	819,619
Exchange realignment	(7,957)
Cost and net carrying amount at 31 December 2016 and 1 January 2017	811,662
Acquisition of subsidiaries	1,907,693
Exchange realignment	69,970
Cost and net carrying amount at 31 December 2017	**2,789,325**

16. GOODWILL (Continued)

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

Goodwill is allocated to the following CGU for impairment testing:

	2017	2016
	(HK$'000)	
Manufacture and export of stroller-related products unit	15,018	13,968
Evenflo unit	615,891	610,938
Columbus unit	208,431	181,846
NICAM unit	5,628	4,910
Oasis Dragon unit	1,944,357	–
	2,789,325	811,662

Trademark with indefinite useful lives is allocated to the following cash-generating units ("CGU") for impairment testing:

	2017	2016
	(HK$'000)	
Evenflo unit	138,071	136,960
Columbus unit	368,216	321,250
Oasis Dragon unit	1,258,405	–
	1,764,692	458,210

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL (Continued)

MANUFACTURE AND EXPORT OF STROLLER-RELATED PRODUCTS UNIT

The recoverable amount of the manufacture and export of stroller-related products unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the five-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 16.3% (2016: 16.4%).

EVENFLO UNIT

The recoverable amount of the Evenflo unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the seven year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 12.5% (2016: 13.9%).

COLUMBUS UNIT

The recoverable amount of the Columbus unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the seven-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 15.3% (2016: 15.1%).

16. GOODWILL (Continued)

NICAM UNIT

The recoverable amount of the NICAM unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a nine-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the nine-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 14.9% (2016: 14.7%).

OASIS DRAGON UNIT

The recoverable amount of the Oasis Dragon unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a four-year period approved by senior management. The growth rate used to extrapolate the cash flows of Oasis Dragon unit beyond the four-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 was 16.4% (2016: Nil).

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

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

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

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

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17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2017

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2016 and at 1 January 2017:						
Cost	497,014	36,791	5,902	140,871	58,328	738,906
Accumulated amortisation	(25,575)	(18,814)	(3,443)	(22,139)	(13,069)	(83,040)
Net carrying amount	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**
At 1 January 2017, net of accumulated amortisation	471,439	17,977	2,459	118,732	45,259	655,866
Additions	2,368	2,274	–	–	6,953	11,595
Acquisition of subsidiaries	1,231,637	665	733	405,453	–	1,638,488
Amortisation provided during the year	(2,312)	(9,849)	(1,431)	(12,953)	(5,266)	(31,811)
Exchange realignment	75,394	3,956	374	12,710	4,627	97,061
At 31 December 2017, net of accumulated depreciation	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**
At 31 December 2017:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
Net carrying amount	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**

17. OTHER INTANGIBLE ASSETS (Continued)

31 DECEMBER 2016

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2015 and at 1 January 2016:						
Cost	510,837	30,238	6,131	143,344	54,654	745,204
Accumulated amortisation	(24,879)	(14,026)	(2,350)	(13,663)	(8,030)	(62,948)
Net carrying amount	**485,958**	**16,212**	**3,781**	**129,681**	**46,624**	**682,256**
At 1 January 2016, net of accumulated amortisation	485,958	16,212	3,781	129,681	46,624	682,256
Additions	1,175	7,847	–	–	5,443	14,465
Disposal	–	(264)	–	–	–	(264)
Amortisation provided during the year	(696)	(5,291)	(1,180)	(9,036)	(5,440)	(21,643)
Exchange realignment	(14,998)	(527)	(142)	(1,913)	(1,368)	(18,948)
At 31 December 2016, net of accumulated depreciation	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**
At 31 December 2016:						
Cost	497,014	36,791	5,902	140,871	58,328	738,906
Accumulated amortisation	(25,575)	(18,814)	(3,443)	(22,139)	(13,069)	(83,040)
Net carrying amount	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent a call option over non-controlling interests of HK$4,160,000 (2016: HK$5,348,000) arising from the acquisition of a subsidiary and a deposit for insurance over one year of HK$3,064,000 (2016: HK$2,497,000).

NOTES TO FINANCIAL STATEMENTS

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19. INVENTORIES

	2017	2016
	(HK$'000)	
Raw materials	370,746	309,450
Work in progress	77,049	55,664
Finished goods	1,413,481	734,732
	1,861,276	1,099,846

20. TRADE AND NOTES RECEIVABLES

	2017	2016
	(HK$'000)	
Trade receivables	1,209,152	646,027
Notes receivable	6,280	7,373
	1,215,432	653,400
Impairment of the trade receivables	(43,694)	(8,960)
	1,171,738	644,440

20. TRADE AND NOTES RECEIVABLES (Continued)

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

	2017	2016
	(HK$'000)	
Within 3 months	1,020,758	597,198
3 to 6 months	138,752	31,460
6 months to 1 year	5,614	4,686
Over 1 year	334	3,723
	1,165,458	637,067

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

	2017	2016
	(HK$'000)	
At beginning of year	8,960	5,947
Recognition of impairment for the year	34,286	8,076
Amounts written off	(478)	(4,606)
Exchange realignment	926	(457)
At end of year	43,694	8,960

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20. TRADE AND NOTES RECEIVABLES (Continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$43,694,000 (2016: HK$8,960,000) with a carrying amount before provision of HK$192,518,000 (2016: HK$12,847,000).

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

	2017	2016
	(HK$'000)	
Neither past due nor impaired	906,697	518,451
Less than 1 month past due	145,481	92,685
1 to 2 months past due	48,483	9,574
2 to 3 months past due	44,134	7,395
Over 3 months and within 1 year past due	20,663	8,962
At end of year	**1,165,458**	**637,067**

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

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

21. PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	(HK$'000)	
Prepayments	104,930	90,026
Other receivables	232,285	97,355
	337,215	187,381

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

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	(HK$'000)	
Unlisted investments, at fair value	138,088	–

The above investments consist of investments in wealth investment products which are designated as available-for-sale financial assets and have maturity within three months and coupon rates ranging from 2.2% to 3.5% per annum.

All wealth investment products subsequently matured in January 2018 with principals and interest fully received.

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23. CASH AND CASH EQUIVALENTS

	2017	2016
	(HK$'000)	
Cash and bank balances	952,153	758,153
Time deposits	84,054	–
Pledged time deposits	15,370	25,367
	1,051,577	783,520
Less: Time deposits	84,054	–
Pledged time deposits:		
Pledged for import bill advance	15,370	25,367
Cash and cash equivalents	**952,153**	**758,153**
Denominated in US$	350,664	467,167
Denominated in RMB	440,903	259,256
Denominated in EUR	158,873	21,988
Denominated in HK$	21,042	6,209
Denominated in other currencies	80,095	28,900
Cash and bank balances	**1,051,577**	**783,520**

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2017	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	18,816	4,408
– not designated as hedging instruments	3,434	–
	22,250	4,408

FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES

Forward currency contracts are designated as hedging instruments in respect of forecasted routine intragroup sales in foreign currencies. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward currency contracts match the terms of the commitments. The cash flow hedges relating to intragroup sales in 2018 were assessed to be highly effective and net gains of HK$12,460,000 were included in the hedging reserve as follows:

	2017
	(HK$'000)
Total fair value losses included in the hedging reserve	(4,806)
Deferred tax on fair value losses	91
Reclassified from other comprehensive income and recognised in the statement of profit or loss	20,165
Deferred tax on reclassifications to profit or loss	(2,990)
Net gains on cash flow hedges	12,460

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25. TRADE AND BILLS PAYABLES

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

	2017	2016
	(HK$'000)	
Within 3 months	1,162,294	798,734
3 to 12 months	144,549	110,322
1 to 2 years	5,428	13,300
2 to 3 years	108	1,740
Over 3 years	194	2,368
	1,312,573	926,464

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2017	2016
	(HK$'000)	
Other payables	190,419	92,021
Advances from customers	149,051	94,284
Accruals	565,526	371,620
	904,996	557,925

The above balances are non-interest-bearing and repayable on demand.

27. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2016	116,085
Additional provision	41,419
Amounts utilised	(30,517)
Exchange realignment	649
Balance at 31 December 2016 and 1 January 2017	127,636
Additional provision	31,205
Amounts utilised	(67,544)
Exchange realignment	2,620
Balance at 31 December 2017	**93,917**
Portion classified as current liabilities	39,200
Non-current portion	**54,717**

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2017, the amount of product warranties was HK$15,749,000.

In addition, the Group estimates future cash outflows in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The amount of cash outflows is estimated based upon an annual review by the management of the Group with pattern of past experience of how the Group discharged its obligation. As at 31 December 2017, the amount of product liabilities was HK$78,168,000.

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28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2017		As at 31 December 2016	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts —secured	Note (a)	2018	158,724	2017	189,782
Current portion of long-term bank loans —secured	Note (b)	2018	371,834	2017	48,862
Bank borrowings —secured	Note (b)	2018	562,687	2017	38,770
Promissory note	Note (c)	2018	625	2017	822
Bank borrowings —unsecured		2018	247,793		—
			1,341,663		278,236
Non-current					
Bank borrowings —secured	Note (b)	2019-2021	1,393,260	2018-2021	948,040
Promissory note	Note (c)	2021	1,876	2021	2,481
			1,395,136		950,521
Total			**2,736,799**		**1,228,757**

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

Note (a): The bank overdraft facilities amounted to HK$177,260,000, of which HK$158,724,000 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) the pledge of shares of certain subsidiaries of the Group; and

(ii) 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 the bank loans and other borrowings range from 0.65% to 6% (2016: 1.25% to 6%).

	Group	
	2017	2016
	(HK$'000)	
Analysed into:		
Bank loans repayable:		
Within one year	1,341,663	278,236
In the second year	310,243	225,832
In the third to fifth years, inclusive	1,084,893	572,646
Beyond the fifth year	–	152,043
	2,736,799	**1,228,757**

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29. DEFINED BENEFIT PLAN LIABILITIES

(1) ERA PLAN

The Group operates a defined benefit plan named the Evenflo Retirement Account plan ("ERA Plan") in the United States. This non-contributory ERA Plan was frozen with effect from 31 August 2002 and no further benefit credits were earned after 31 July 2002. No new employees have been added to the ERA Plan since this date. For benefits earned prior to this date, the plan provides employees with pension benefits that are either based on age and compensation or are based on stated amounts for each year of service.

The ERA Plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. This includes employing the use of annuities and longevity swaps to manage the risks. The trustees decide the contribution based on the results of the annual review. The investment portfolio targets a mix of 60-65% in equity and property and 35-40% in debt instruments.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2017 by an independent actuary, a member of the Society of Actuaries in the United States, using the projected unit credit actuarial valuation method.

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The principal actuarial assumption used as at the end of the reporting period is as follows:

	2017	2016
Discount rate (%)	3.35%	3.75%

The fair value of plan assets was HK$101,402,000 (2016: HK$100,836,000) and the value of these assets represented 96% of the benefits that had accrued to qualifying employees. The deficiency of HK$4,189 is expected to be cleared over the remaining duration of the defined benefit obligations of 9.3 years.

A quantitative sensitivity analysis for the significant assumption as at the end of the reporting period is shown below:

	Increase in rate %	Increase/(decrease) in defined benefitobligations (HK$'000)	Decrease in rate %	Increase/(decrease) in defined benefit obligations (HK$'000)
2017				
Discount rate	0.5	(4,503)	0.5	4,901
2016				
Discount rate	0.5	(4,252)	0.5	4,609

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in the key assumption occurring at the end of the reporting period.

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2017	2016
	(HK$'000)	
Interest cost	247	256
Past service cost	61	–
Net benefit expenses	308	256
Administrative expense relating to plan assets	2,424	1,420

The movements in the present value of the defined benefit obligations are as follows:

	2017	2016
	(HK$'000)	
Assets at 1 January	(105,837)	(110,054)
Interest cost	(3,838)	(4,182)
Remeasurement effects recognised in OCI	(1,477)	985
Benefit paid	6,476	7,464
Past service cost	(61)	–
Exchange differences on a foreign plan	(857)	(50)
Liabilities at 31 December	**(105,594)**	**(105,837)**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2017

		Cost (charged)/credited to profit or loss				Remeasurement gains/(losses) in other comprehensive income							
	1 January 2017	Past service cost	Administrative expense	Net interest expense/ (impairment)	Sub-total included in profit or loss	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange rate difference	31 December 2017
	(HK$'000)												
Defined benefit obligations	(105,837)	(61)	–	(3,838)	(3,899)	6,476	–	1,036	(3,620)	1,107	(1,477)	(857)	(105,594)
Fair value of plan assets	100,836	–	(2,424)	3,592	1,167	(6,476)	5,055	–	–	–	5,055	819	101,401
Benefit liabilities	**(5,001)**	**(61)**	**(2,424)**	**(246)**	**(2,732)**	**–**	**5,055**	**1,036**	**(3,620)**	**1,107**	**3,578**	**(38)**	**(4,193)**

2016

		Cost (charged)/credited to profit or loss				Remeasurement gains/(losses) in other comprehensive income						
	1 January 2016	Administrative expense	Net interest expense/ investment income	Sub-total included in profit or loss	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange differences	31 December 2016
	(HK$'000)											
Defined benefit obligations	(110,054)	–	(4,182)	(4,182)	7,464	–	1,629	(1,529)	885	985	(50)	(105,837)
Fair value of plan assets	104,140	(1,420)	3,926	2,506	(7,464)	1,606	–	–	–	1,606	48	100,836
Benefit liabilities	**(5,914)**	**(1,420)**	**(256)**	**(1,676)**	**–**	**1,606**	**1,629**	**(1,529)**	**885**	**2,591**	**(2)**	**(5,001)**

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The major categories of the fair value of the total plan assets are as follows:

	2017	2016
	(HK$'000)	
Equity instruments, quoted in an active market	–	59,862
Debt instruments	96,273	36,546
Cash and cash equivalents	5,128	4,428

The average duration of the defined benefit obligations at the end of the reporting period was 9.91 years.

(2) POST-RETIREMENT BENEFIT OBLIGATIONS

Post-retirement healthcare and life insurance benefits are provided for U.S. retired employees and their dependents. Substantially all of the Group's U.S. employees may become eligible for those benefits if they reach the normal retirement age while working for the Company. The Group does not fund retiree healthcare benefits in advance and has the right to modify these plans in the future. There have been no changes in the plan provisions in 2017.

Key assumptions used in the accounting for postretirement benefits are summarised below.

	2017	2016
Discount rate (%)	3.30	3.65
Current healthcare cost trend rate (%)	6.8	7.0
Ultimate healthcare cost trend rate (%)	5.0	5.0

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/(decrease) in defined benefit obligations (HK$'000)	Decrease in rate %	Increase/(decrease) in defined benefit obligations (HK$'000)
2017				
Discount rate	**0.5**	**(281)**	**0.5**	**304**
Healthcare trend rate	**1.0**	**234**	**1.0**	**281**
2016				
Discount rate	0.5	(318)	0.5	349
Healthcare trend rate	1.0	264	1.0	310

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2017	2016
	(HK$'000)	
Interest cost	282	318
Net benefit cost	282	318
Recognised in administrative expenses	282	318

The movements in the present value of the defined benefit obligations are as follows:

	2017	2016
	(HK$'000)	
At 1 January	(8,104)	(8,767)
Interest cost	(282)	(318)
Remeasurement effects recognised in OCI	823	652
Benefits paid directly by the Group	380	334
Exchange differences on a foreign plan	(64)	(5)
At 31 December	**(7,247)**	**(8,104)**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2017

		Cost charged to profit or loss			Remeasurement gains/(losses) in other comprehensive income					
	1 January 2017	Net interest expense	Sub-total included in profit or loss	Benefit paid	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange differences	31 December 2017
	(HK$'000)									
Benefit obligations	(8,104)	(282)	(282)	380	65	(78)	836	823	(64)	(7,247)
Benefit liabilities	**(8,104)**	**(282)**	**(282)**	**380**	**65**	**(78)**	**836**	**823**	**(64)**	**(7,247)**

2016

		Cost charged to profit or loss			Remeasurement gains/(losses) in other comprehensive income					
	1 January 2017	Net interest expense	Sub-total included in profit or loss	Benefit paid	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange differences	31 December 2017
	(HK$'000)									
Benefit obligations	(8,767)	(318)	(318)	334	116	303	233	652	(5)	(8,104)
Benefit liabilities	**(8,767)**	**(318)**	**(318)**	**334**	**116**	**303**	**233**	**652**	**(5)**	**(8,104)**

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30. DEFERRED TAX

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

DEFERRED TAX ASSETS:

	Provision for impairment of receivables	Write-down of inventories	Provision	Accruals	Losses available for offsetting against future taxable profits	Depreciation	Derivative financial instruments	Unrealised profit	Provision for impairment of property, plant and equipment	Insurance deposit	Pension and post-retirement benefits	Foreign tax credit	Others	Total
	(HK$'000)													
As at 1 January 2016	2,987	9,188	2,009	44,012	6,373	2,974	279	14,502	–	–	829	–	681	83,834
Credited/(charged) to profit or loss (note 11)	316	4,949	7,103	6,600	59,496	722	(283)	34,782	1,020	–	4,745	15,930	5,173	140,553
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	1,102	–	–	1,102
Exchange realignment	(116)	(698)	(128)	(578)	(272)	(201)	4	(1,689)	(46)	–	(2)	(11)	(17)	(3,754)
As at 31 December 2016 and 1 January 2017	3,187	13,439	8,984	50,034	65,597	3,495	–	47,595	974	–	6,674	15,919	5,837	221,735
Credited/(charged) to profit or loss (note 11)	4,049	(2,763)	(7,445)	(21,372)	(33,693)	(920)	–	14,739	(1,006)	–	(2,443)	(6,032)	(2,624)	(59,510)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(1,457)	–	–	(1,457)
Addition from acquisition	–	5,226	–	15,275	–	–	–	–	–	–	–	–	–	20,501
Exchange realignment	(336)	854	100	747	2,661	972	–	876	32	–	32	111	(964)	5,085
As at 31 December 2017	**6,900**	**16,756**	**1,639**	**44,684**	**34,565**	**3,547**	**–**	**63,210**	**–**	**–**	**2,806**	**9,998**	**2,249**	**186,354**

The Group has tax losses arising in the United States of nil (2016: HK$14,888,000) that will expire in six to seventeen years for offsetting against future taxable profits. The Group has tax losses arising in the Germany of HK$1,352,000 (2016: HK$4,657,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of nil (2016: HK$1,035,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Derivative financial instruments	Inventory valuation differences	Depreciation	Fair value adjustments arising from put/call options	Prepaid expenses	Receivable valuation differences	Other intangible assets	Others	Total
	(HK$'000)									
At 1 January 2016	(17,980)	(135)	(2,279)	(7,100)	(2,656)	(62)	(111)	(211,562)	–	(241,885)
(Charged)/credited to profit or loss (note 11)	–	137	(171)	(4,159)	–	62	120	3,039	–	(972)
Exchange realignment	1,157	(2)	95	(39)	98	–	(9)	4,803	–	6,103
At 31 December 2016 and 1 January 2017	(16,823)	–	(2,355)	(11,298)	(2,558)	–	–	(203,720)	–	(236,754)
Addition from acquisition	–	–	(4,798)	–	–	–	–	(409,272)	–	(414,070)
(Charged)/credited to profit or loss (note 11)	–	(447)	4,939	6,546	(195)	(1,174)	(706)	37,188	(1,964)	44,187
Credited to other comprehensive income	–	(2,899)	–	–	–	–	–		–	(2,899)
Exchange realignment	(1,264)	(281)	(352)	(84)	(385)	(73)	(44)	(27,197)	(6)	(29,686)
At 31 December 2017	**(18,087)**	**(3,627)**	**(2,566)**	**(4,836)**	**(3,138)**	**(1,247)**	**(750)**	**(603,001)**	**(1,970)**	**(639,222)**

Pursuant to the EIT Law, a 10% withholding tax is leied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%.

Pursuant to the Board resolutions of PCPC, GCPC and its subsidiaries, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2017 will not be appropriated to GBHK in 2017 and onwards. Hence, the deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2017.

At 31 December 2017, other than the amount recognised in the consolidated financial statements, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$1,148,780,000 at 31 December 2017 (2016: HK$921,959,000).

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

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30. DEFERRED TAX (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017	2016
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
—Deferred tax assets	112,980	130,880
—Deferred tax liabilities	(565,848)	(145,899)

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

	2017	2016
	(HK$'000)	
Tax losses	1,352	68,591
Write-down of inventories	–	1,551
Accruals	–	1,334
Others	846	3,279
	2,198	**74,754**

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. OTHER LIABILITIES

Included in other liabilities are a put option over non-controlling interests of HK$10,460,000 (2016: HK$8,893,000) arising from the acquisition of CBDK and employee worker injury compensation of HK3,629,000 (2016: HK$3,582,000) of overseas subsidiaries.

32. SHARE CAPITAL

Issued and fully paid:	As at 31 December 2017	As at 31 December 2016
	(HK$'000)	
1,666,251,000 (2016: 1,115,129,000) ordinary shares	**16,662**	**11,151**

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue ('000)	Share capital (HK$'000)	Share premium (HK$'000)	Total (HK$'000)
At 1 January 2016	1,108,598	11,086	1,208,078	1,219,164
Share options exercised	6,531	65	19,447	19,512
Dividend	–	–	(55,679)	(55,679)
At 31 December 2016 and 1 January 2017	1,115,129	11,151	1,171,846	1,182,997
Issuance of shares (note (a))	536,100	5,361	2,228,723	2,234,084
Share options exercised (note (b))	15,022	150	50,790	50,940
Dividend	–	–	(55,885)	(55,885)
At 31 December 2017	**1,666,251**	**16,662**	**3,395,474**	**3,412,136**

Notes:

(a) On 23 October 2017, the Group acquired the entire issued share capital in Oasis Dragon Limited at a consideration of HK$3,412,505,000, of which to be satisfied in cash as to the amount of HK$1,160,886,000 and as to the balance by the allotment and issue of 536,100,000 new shares to the sellers.

(b) The subscription rights attaching to 11,789,500, 1,566,000 and 1,666,666 share options were exercised at the subscription prices of HK$2.12, HK$3.58 and HK$3.87 per share (note 33), resulting in the issue of 15,022,166 shares for a total cash consideration, before expenses, of HK$37,050,000. An amount of HK$13,890,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

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33. 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 25 May 2017. 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.

33. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price	Number of options
	HK$ per shar	'000
At 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 and 1 January 2017	3.420	74,960
Granted during the year	3.880	4,500
Forfeited during the year	3.708	(13,488)
Exercised during the year	2.466	(15,022)
At 31 December 2017	**3.665**	**50,950**

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.81 per share (2016: HK$4.42).

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33. SHARE OPTION SCHEME (Continued)

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

2017

Number of options '000	Exercise price HK$ per share	Exercise period
20	2.12	3 January 2013 to 2 January 2018
9,360	3.58	29 September 2017 to 28 September 2024
10,060	3.58	29 September 2018 to 28 September 2024
9,360	3.58	29 September 2019 to 28 September 2024
5,883	3.75	7 October 2018 to 6 October 2025
5,883	3.75	7 October 2019 to 6 October 2025
5,884	3.75	7 October 2020 to 6 October 2025
1,500	3.88	28 August 2020 to 27 August 2027
1,500	3.88	28 August 2021 to 27 August 2027
1,500	3.88	28 August 2022 to 27 August 2027
50,950		

33. SHARE OPTION SCHEME (Continued)

2016

Number of options '000	Exercise price HK$ per share	Exercise period
218	2.12	3 January 2013 to 2 January 2018
1,928	2.12	3 January 2015 to 2 January 2018
6,993	2.12	3 January 2016 to 2 January 2018
2,671	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 2025
7,383	3.75	7 October 2019 to 6 October 2025
7,384	3.75	7 October 2020 to 6 October 2025
1,667	3.87	30 August 2017 to 29 August 2023
3,333	3.87	30 August 2018 to 29 August 2023
74,960		

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33. SHARE OPTION SCHEME (Continued)

The Group recognised a share option expense of HK$8,910,000 (2016: HK$16,507,000) for the year ended 31 December 2017.

The fair value of equity-settled share options granted during the year 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 28 August 2017	Share options granted on 30 August 2016
Dividend yield (%)	1.87	1.79
Spot stock price (HK$ per share)	3.88	3.87
Historical volatility (%)	37.60	35.55
Risk-free interest rate (%)	1.58	0.82
Expected life of options (year)	10	7
Weighted average share price (HK$ per share)	3.78	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 15,022,166 share options exercised during the year resulted in the issue of 15,022,166 ordinary shares of the Company and new share capital of HK$150,222 and share premium of HK$50,790,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 50,950,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 50,950,000 additional ordinary shares of the Company and additional share capital of HK$509,500, and share premium of HK$186,212,800 (before issue expenses).

At the date of approval of these financial statements, the Company had 49,930,000 share options outstanding under the Scheme, which represented approximately 3.00% of the Company's shares in issue as at that date.

34. RESERVES

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

STATUTORY RESERVE FUNDS

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of this fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Enterprise expansion fund

In accordance with relevant regulations and the articles of association of the Group's PRC subsidiaries, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors for the subsidiaries registered in the PRC as foreign invested companies. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

(iii) Statutory surplus reserve

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

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34. RESERVES (Continued)

MERGER RESERVE

As at 31 December 2017, the merger reserve represents:

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

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

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

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

HEDGING RESERVE

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

35. BUSINESS COMBINATION

On 23 October 2017("Completion Date"), the Group completed the acquisition of 100% shares (the "Acquisition") of Oasis Dragon Limited, an unlisted company. Oasis Dragon Limited and its subsidiaries (together, the "Oasis Dragon Group") principally engaged in the retail business of maternity, baby and children's products under Goodbaby Brands in Mainland China. The acquisition was made as part of the Group's strategy to strengthen its retail channel in Mainland China, and also to eliminate continuing connected transactions between the Group and Oasis Dragon Group. The total consideration was approximately HK$3,412.5 million, which comprises cash consideration of HK$1,160.9 million (including price adjustment) and share consideration of HK$2,251.6 million (536,100,000 consideration shares measured at closing market price at Completion Date of HK$4.2). Further details of the transaction are included in note 39(b) to the financial statement. The Acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Oasis Dragon Group for the period from the Completion Date to 31 December 2017.

The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to the acquirees' assets and liabilities. However, the appraisal was in the process of finalization, and hence the initial accounting for the business combination of the acquirees is incomplete by the date that the board of directors to approve 2017 annual financial statements. Therefore, the following amounts recognized in the Group's 2017 annual financial statements in relation to such business acquisition were on a provisional basis:

	HK$'000
Property, plant and equipment	50,331
Other intangible assets	1,638,488
Deferred tax assets	3,691
Inventories	388,724
Trade and notes receivables	358,851
Prepayments and other receivables	44,878
Due from related parties	329,193
Cash and cash equivalents	47,948
Trade and bills payables	(204,688)
Other payables, advances from customers and accruals	(280,387)
Income tax payable	(33,184)
Due to related parties	(427,216)
Deferred tax liabilities	(397,260)
Total identifiable net assets	1,519,369
Non-controlling interests	(14,557)
Goodwill on acquisition (note 16)	1,907,693
Satisfied by cash	1,160,886
Satisfied by share	2,251,619

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35. BUSINESS COMBINATION (Continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$358,851,000 and HK$44,878,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$358,851,000 and HK$44,878,000, respectively.

The Group incurred acquisition related costs of HK$44,833,000 for this acquisition. Other than the incremental costs directly attributable to issuance of new shares, all other transaction cost have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2017
	HK$'000
Total purchase consideration	1,160,886
Less: Cash and cash equivalents acquired	47,948
Net outflow of cash and cash equivalents included in cash flows from investing activities	**1,112,938**

In accordance with IFRS 3 (Revised) Business Combinations, the amounts recorded for the acquisition are provisional and are subject to adjustments during the measurement period of not exceeding one year from the acquisition date if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Upon the finalization of appraisal on the fair value of the identifiable assets and liabilities at the acquisition date, the goodwill recognised at the acquisition date may be different from the amount presented above.

Since the acquisition, the acquired businesses contributed HK$565,844,000 to the Group's turnover and HK$35,696,000 profit to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$8,626,457,000 and HK$387,946,000, respectively.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) MAJOR NON-CASH TRANSACTIONS:

On 23 October 2017, the Group completed the acquisition of Oasis Dragon Limited and its subsidiaries (collectively as "Oasis Dragon Group"). Among the total consideration, HK$2,251,619,000 was settled by the allotment and issue of the 536,100,000 new shares on 23 October 2017. Please refer to Note 35 Business Combination.

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

	Interest-bearing bank loans and other borrowings (HK$'000)
At 1 January 2017	1,228,757
Changes from financing cash flows	1,430,506
Foreign exchange movement	77,536
	2,736,799

37. OPERATING LEASE ARRANGEMENTS

AS LESSEE

	2017 (HK$'000)	2016 (HK$'000)
Within one year	138,833	75,826
After one year but not more than five years	123,027	69,535
	261,860	**145,361**

NOTES TO FINANCIAL STATEMENTS

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38. COMMITMENTS

In addition to the operating lease commitments disclosed in note 37 above, the Group had the following commitments as at 31 December:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2017	2016
	(HK$'000)	
Contracted, but not provided for, in respect of acquisition of:		
Property, plant and equipment	**11,226**	**3,334**

(B) OTHER COMMITMENT

	2017	2016
	(HK$'000)	
Upfront fee of a term loan facility	**9,516**	**4,000**

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facilities of HK$760 million and HK$780 million that were entered into between an overseas wholly-owned subsidiary and financial institution, respectively, the Group shall pay to the financial institution an upfront fee equal to one percent of the loan amount, which shall be due and payable in five equal instalments of approximately HK$1.5 million per annum for the loan facility of HK$760 million, and an amount equal to 0.5 per cent of the loan facility of HK$780 million (first instalment) which is payable on 1 January 2018 and an amount equal to 0.5 per cent of the loan facility (second instalment) which is payable on the first anniversary of the loan agreement.

39. RELATED PARTY TRANSACTIONS AND BALANCES

(A) NAME AND RELATIONSHIP

Name of related party	**Relationship with the Group**
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
Goodbaby Bairuikang Hygienic Products Co., Ltd. ("BRKH")	50/50 jointly controlled by First Shanghai Hygienic Products Limited and Sure Growth Investments Limited, which is significantly influenced by Mr. Song and his spouse
Goodbaby Group Co., Ltd. ("GGCL")	Controlled by Mr. Song and his spouse
Goodbaby China Holdings Limited ("CAGB")	Controlled by Mr. Song and his spouse
Goodbaby China Commercial Co., Ltd. (GCCL)	Wholly owned by CAGB
Shanghai Goodbaby Child Products Co., Ltd. ("SGCP")	Ultimately owned by CAGB
Goodbaby Group Pingxiang Co., Ltd. ("GGPX")	Wholly owned by GGCL
Goodbaby (China) Retail & Service Company ("GRCN"*)	Ultimately owned by CAGB until 23 October 2017
Goodbaby (China) Commercial Holdings Limited ("GCHL")	Wholly owned by CAGB

* The Group acquired 100% equity of GRCN on 23 October 2017. Please refer to Note 35 Business Combination.

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39. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) RELATED PARTY TRANSACTIONS

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

	2017	2016
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	**696,275**	**778,977**
Purchase of goods from a related party (note (b))		
GCCL#	**326**	**44**
Rental expenses to related parties (note (c))		
GGPX#	11,752	11,689
GGCL#	769	799
	12,521	**12,488**
Expenses paid on behalf of related parties (note (d))		
GCCL#	680	679
Expenses paid by a related party (note (d))		
BRKH#	**236**	**170**

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

Note (b): The purchase of goods from the related party was made according to the prices and terms agreed with the related party.

Note (c): The rental expenses to related parties were paid according to the prices and terms agreed with the related parties.

Note (d): The expenses paid on behalf of/by the related parties are interest-free and repayable on demand.

\# These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) During the year, the Group acquired Oasis Dragon Limited and its subsidiaries, from Goodbaby China Holdings Limited ("CAGB"), the one of the related parties of the Group, at a consideration of HK$3,412,505,000. Further details of the transaction are included in note 35 to the financial statements.

39. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(C) OUTSTANDING BALANCES WITH RELATED PARTIES

	2017	2016
	(HK$'000)	
Amounts due from related parties:		
GRCN	–	284,368
SGCP	–	27
	–	**284,395**

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

	2017	2016
	(HK$'000)	
Amounts due to related parties:		
GCCL	73,733	–
GCHL	18,805	–
CAGB	6,605	–
	99,143	**–**

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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39. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2017	2016
	(HK$'000)	
Short term employee benefits	65,374	30,205
Equity-settled share option expense	4,286	6,739
Post-employment benefits	1,616	689
Director fees	78	–
Total compensation paid to key management personnel	**71,354**	**37,633**

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

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	2017	2016
	(HK$'000)			
Financial assets				
Derivative financial instruments	22,250	–	22,250	–
Other long-term assets - call option over non-controlling interests	4,160	5,348	4,160	5,348
Available-for-sale investments	138,088	–	138,088	–
	164,498	**5,348**	**164,498**	**5,348**
Financial liabilities				
Derivative financial instruments	4,408	–	4,408	–
Put option over non-controlling interests	10,460	8,893	10,460	8,893
Interest-bearing bank loans and other borrowings	2,736,799	1,228,757	2,736,799	1,228,757
	2,751,667	**1,237,650**	**2,751,667**	**1,237,650**

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, other receivables, time deposits, pledged time deposits, current interest-bearing bank loans and other borrowings, trade and bills payables, other liabilities, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current interest-bearing bank loans, and other borrowings of the Group approximates to their fair value because the loans have a floating interest rate.

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

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

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

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

As at 31 December 2017, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

Below is a summary of significant unobservable inputs to the valuation of wealth investment products together with a quantitative sensitivity analysis as at 31 December 2017 and 2016:

Financial instruments	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input (HK$'000)
Available-for-sale investments	Discount cash flow method	Expected rate of return	2017: 2.2% to 3.5% (2016: Nil)	5% increase (decrease) expected rate of return would result in increase (decrease) in fair value by HK$38 (HK$38)(2016: Nil(Nil))

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

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	31 December 2017	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
– Call option over non-controlling interests	4,160	–	–	4,160
Available-for-sale investments	138,088	–	–	138,088
Derivative financial instruments	20,250	–	20,250	–
	162,498	**–**	**20,250**	**142,248**

	31 December 2016	Fair value measurement using		
		Quoted prices in activemarkets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
Call option over non-controlling interests	**5,348**	**–**	**–**	**5,348**

The movements in fair value measurements in Level 3 during the year are as follows:

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

FAIR VALUE HIERARCHY (Continued)

Assets measured at fair value:(continued):

	2017	2016
	(HK$'000)	
At 1 January	5,348	313,984
Remeasurement recognised in other expenses	1,747	1,940
Purchases	390,033	2,681,062
Disposals	(257,330)	(2,985,063)
Exchange realignment	2,450	(6,575)
At 31 December	**142,248**	**5,348**

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company did not have any financial assets and liabilities measured at fair value as at 31 December 2016 and 2017.

Liabilities for which fair values are disclosed:

		Fair value measurement using		
	31 December 2017	Quoted pricesin active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put option over non-controlling interests	10,460	–	–	10,460
Derivative financial instruments	4,408	–	4,408	–
Interest-bearing bank loans and other borrowings	2,736,799	–	2,736,799	–
	2,751,667	**–**	**2,741,207**	**10,460**

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

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed (continued):

	31 December 2016	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put option over non-controlling interests	8,893	–	–	8,893
Interest-bearing bank loans and other borrowings	1,228,757	–	1,228,757	–
	1,237,650	**–**	**1,228,757**	**8,893**

The movements in fair value measurements in Level 3 during the year are as follows:

	2017	2016
	(HK$'000)	
At 1 January	8,893	6,578
Remeasurement recognised in other expense	241	2,692
Exchange realignment	1,326	(377)
At 31 December	**10,460**	**8,893**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

FINANCIAL ASSETS

As at 31 December 2017

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	(HK$'000)			
Trade and notes receivables	–	–	1,171,738	1,171,738
Financial assets included in prepayments and other receivables (note 21)	–	–	232,285	232,285
Available-for-sale investments	–	138,088	–	138,088
Derivative financial instruments	22,250	–	–	22,250
Other long-term assets (note 18)	4,160	–	3,064	7,224
Pledged time deposits	–	–	15,370	15,370
Time deposits	–	–	84,054	84,054
Cash and cash equivalents	–	–	952,153	952,153
	26,410	**138,088**	**2,458,664**	**2,623,162**

As at 31 December 2016

	Financial assets at fair value through profit of loss	Loans and receivables	Total
	(HK$'000)		
Trade and notes receivables	–	644,440	644,440
Financial assets included in prepayments and other receivables (note 21)	–	97,355	97,355
Due from related parties	–	284,395	284,395
Other long-term assets (note 18)	5,348	–	5,348
Pledged time deposits	–	25,367	25,367
Cash and cash equivalents	–	758,153	758,153
	5,348	**1,809,710**	**1,815,058**

41. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2017

	Financial liabilities at fair value through profit of loss	Financial liabilities at amortised cost	Total
	(HK$'000)		
Financial liabilities included in other payables, advances from customers and accruals (note 26)	–	190,419	190,419
Trade and bills payables	–	1,312,573	1,312,573
Interest-bearing bank loans and other borrowings	–	2,736,799	2,736,799
Derivative financial instruments	4,408	–	4,408
Other liabilities (note 31)	–	10,460	10,460
Due to related parties	–	99,143	99,143
	4,408	**4,349,394**	**4,353,802**

As at 31 December 2016

	Financial liabilities at amortised cost (HK$'000)
Financial liabilities included in other payables, advances from customers and accruals (note 26)	92,021
Trade and bills payables	926,464
Interest-bearing bank loans and other borrowings	1,228,757
Other liabilities (note 31)	8,893
	2,256,135

NOTES TO FINANCIAL STATEMENTS

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans and other borrowings, trade and bills payables, other payables and other liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial investments such as trade and other receivables, cash and cash equivalents and amounts due from related parties, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations.

It is, and has been throughout the year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 28.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in interest rate	(Decrease)/ increase in profit before tax
	(HK$'000)	
Year ended 31 December 2017	+5%/-5%	(3,275)/3,275
Year ended 31 December 2016	+5%/-5%	(2,758)/2,758

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposure. This exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group manages its foreign currency risk by entering into foreign currency forward contracts to hedge its exposure to fluctuations on the translation into EUR of its foreign operations of sales in US$ and the translation into RMB of its foreign operations of sales in US$ or EUR, as described in note 24. It is the Group's policy to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at a fixed rate where necessary to address short term imbalances. Management will continue to monitor foreign exchange exposure and will continue to consider hedging significant foreign currency exposure by using financial instruments such as foreign currency forward contracts.

The operating units' functional currencies of the Group are RMB, EUR and the United States dollar ("US$"), while the currency which has significant transactional currency exposure is US$. The Group's exposure to foreign currency changes for all other currencies is not material. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in US$ rate	Increase/(decrease) in profit before tax
	(HK$'000)	
Year ended 31 December 2017		
If US$ strengthens against RMB	5%	(106)
If US$ weakens against RMB	-5%	106
If US$ strengthens against EUR	5%	5,830
If US$ weakens against EUR	-5%	(5,830)
Year ended 31 December 2016		
If US$ strengthens against RMB	5%	9,933
If US$ weakens against RMB	-5%	(9,933)
If US$ strengthens against EUR	5%	717
If US$ weakens against EUR	-5%	(717)

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

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

At the end of the reporting period, the Group had certain concentrations of credit risk as 7% (2016: 8%) of the Group's trade receivables were due from the Group's largest customer.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

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

31 December 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interests-bearing bank loan and other borrowings	158,724	660,854	566,754	1,478,002	2,864,334
Trade and bills payables	1,162,294	150,279	–	–	1,312,573
Derivative financial instruments	–	4,408	–	–	4,408
Other liabilities	–	–	–	10,460	10,460
Other payables	190,419	–	–	–	190,419
Due to related parties	99,143	–	–	–	99,143
	1,610,580	**815,541**	**566,754**	**1,488,462**	**4,481,337**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK (Continued)

31 December 2016

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interests-bearing bank loan and other borrowings	189,782	94,423	20,848	1,006,655	1,311,708
Trade and bills payables	798,734	127,730	–	–	926,464
Other liabilities	–	–	–	8,893	8,893
Other payables	92,021	–	–	–	92,021
	1,080,537	**222,153**	**20,848**	**1,015,548**	**2,339,086**

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loans and other borrowings, trade and bills payables, other payables, advances from customers and accruals, due to related parties, and less cash and cash equivalents. Capital represents equity attributable to owners of the parent and less hedging reserve.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CAPITAL MANAGEMENT (Continued)

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

	2017	2016
	(HK$'000)	
Trade and bills payables	1,312,573	926,464
Other payables, advances from customers and accruals	904,996	557,925
Interest-bearing bank loans and other borrowings	2,736,799	1,228,757
Due to related parties	99,143	–
Less: Cash and cash equivalents	(952,153)	(758,153)
Net debt	4,101,358	1,954,993
Equity attributable to owners of the parent	5,107,884	2,440,280
Less: Hedging reserve	12,460	–
Adjusted capital	5,095,424	2,440,280
Capital and net debt	**9,196,782**	**4,395,273**
Gearing ratio	**45%**	**44%**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	(HK$'000)	
NON-CURRENT ASSETS		
Investment in subsidiaries	3,809,860	339,598
Total non-current assets	3,809,860	339,598
CURRENT ASSETS		
Other receivables	3,088	303
Due from subsidiaries	621,728	751,713
Cash and cash equivalents	19,553	2,800
Total current assets	644,369	754,816
CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	78,164	–
Other payables	15,727	8,914
Payroll payable	7	72
Accrued expenses	38,309	90
Dividend payables	8	8
Due to a subsidiary	958,366	329
Total current liabilities	1,090,581	9,413
NET CURRENT (LIABILITIES)/ASSETS	(446,212)	745,403
TOTAL ASSETS LESS CURRENT LIABILITIES	3,363,648	1,085,001
Net assets	**3,363,648**	**1,085,001**
EQUITY		
Share capital	16,662	11,151
Reserves (note)	3,346,986	1,073,850
Total equity	**3,363,648**	**1,085,001**

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium	Share option reserve	Accumulated losses	Total
	(HK$'000)			
Balance at 31 December 2015 and 1 January 2016	1,208,078	30,907	(73,767)	1,165,218
Loss for the year	–	–	(65,977)	(65,977)
Dividends	(55,679)	–	–	(55,679)
Share options exercised	19,447	(5,666)	–	13,781
Equity-settled share option arrangements	–	16,507	–	16,507
Balance at 31 December 2016 and 1 January 2017	1,171,846	41,748	(139,744)	1,073,850
Profit for the year	–	–	54,488	54,488
Dividends	(55,885)	–	–	(55,885)
Issue of shares	2,246,258	–	–	2,246,258
Share issue expense	(17,535)	–	–	(17,535)
Share options exercised	50,790	(13,890)	–	36,900
Equity-settled share option arrangements	–	8,910	–	8,910
As at 31 December 2017	**3,395,474**	**36,768**	**(85,256)**	**3,346,986**

44. EVENTS AFTER THE REPORTING PERIOD

On March 15, 2018, Toys "R" Us ("TRU") officially announced its plan to conduct an orderly wind-down of its U.S. business. Based on this latest available information, the Group performed assessment and then stopped all shipment to TRU and recorded an additional provision into our 2017 account for potential bad receivables from TRU for our shipments to TRU U.S. in 2017.

At the date of approval of these financial statements, the Group also had receivables of HKD24,578,000 from the shipments to TRU U.S. in 2018. The collectability of these receivables has significant uncertainty and may affect our financial statements for the six months period ending 30 June 2018.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	(HK$'000)				
RESULTS					
Revenue	7,142,566	6,238,179	6,951,131	6,115,592	4,188,794
Cost of sales	(4,395,786)	(4,126,715)	(4,900,919)	(4,588,057)	(3,228,205)
Gross profit	2,746,780	2,111,464	2,050,212	1,527,535	960,589
Other income and gains	41,115	59,101	94,881	97,147	48,593
Selling and distribution expenses	(1,332,515)	(982,468)	(1,030,382)	(777,464)	(446,969)
Administrative expenses	(1,103,495)	(924,260)	(794,064)	(699,180)	(359,971)
Other expenses	(39,429)	(50,199)	(3,062)	(3,234)	(10,056)
Operating profit	312,456	213,638	317,585	144,804	191,186
Finance income	4,617	3,347	7,246	8,606	10,590
Finance costs	(65,506)	(55,166)	(60,466)	(48,110)	(6,826)
Share of profits and losses of a joint venture	(29)	26	(30)	(31)	(22)
Share of profits and losses of an associate	–	–	(8)	–	–
Profit before tax	251,538	161,845	264,327	105,269	194,928
Income tax credit/(expense)	(67,132)	50,395	(61,655)	(47,545)	(23,799)
Profit for the year	**184,406**	**212,240**	**202,672**	**57,724**	**171,129**
Attributable to:					
Owners of the parent	179,350	207,390	197,434	57,475	171,213
Non-controlling interests	5,056	4,850	5,238	249	(84)
	184,406	**212,240**	**202,672**	**57,724**	**171,129**

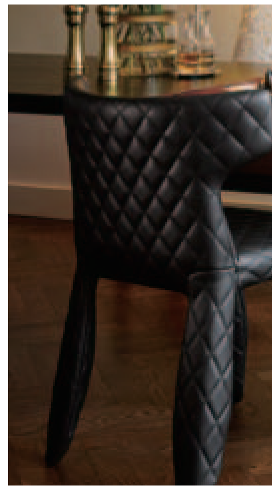
FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	(HK$'000)				
Total assets	10,964,571	5,518,738	5,921,551	6,422,064	3,463,668
Total liabilities	(5,798,704)	(3,040,576)	(3,513,449)	(4,194,404)	(1,436,176)
Non-controlling interests	(57,983)	(37,882)	(42,844)	(30,756)	(30,611)
	5,107,884	**2,440,280**	**2,365,258**	**2,296,904**	**1,996,881**





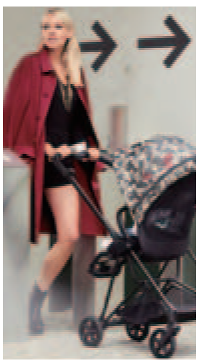










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