THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt to any aspect of this circular or as to the action to be taken, you should consult your stockbrokers, licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Goodbaby International Holdings Limited(the "**Company**"), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbrokers, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

Goodbaby International

Goodbaby International Holdings Limited

好孩子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1086)

(1) MAJOR AND CONNECTED TRANSACTION
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(3) APPLICATION FOR WHITEWASH WAIVER
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

Morgan Stanley

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 9 to 37 of this circular. A letter from the Independent Board Committee is set out on page 38 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 71 of this circular.

A notice convening the EGM of the Company to be held at 10:00 a.m. on 21 September 2017 at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out from pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

4 September 2017

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In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

"Acquisition"	the acquisition by the Company of the Sale Share
"Actual Working Capital"	the working capital (taking into account the inventory, accounts receivable, accounts payable, prepayment and deposits, other payables and accruals) of the Target Group as shown in the Completion Statement
"Agreement"	the agreement dated 24 July 2017 and entered into between the Purchaser and the Vendor in relation to the Acquisition
"Announcement"	the announcement of the Company dated 24 July 2017 in relation to the Acquisition and Whitewash Application
"associate"	has the meaning ascribed thereto under the Takeovers Code
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CAEL"	Cayey Enterprises Limited, a company incorporated in BVI on 1 February 2008 and indirectly held by Credit Suisse Trust Limited as trustee for the Gappa Trust
"CAGR"	compound annual growth rate
"Cash Consideration"	the cash amount of US$120,485,816
"Company"	Goodbaby International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 1086)
"Completion"	completion of the sale and purchase of the Sale Share in accordance with the Agreement
"Completion Date"	the date on which Completion takes place
"Completion Statement"	the final statement of financial position of the Target Group as at the Completion Date to be prepared by independent auditors to be appointed by the Purchaser
"Concert Group"	PUD, CAEL, SGIL, ROSL, SIML and parties acting in concert with any of them (including Mr. Song, Ms. Fu, Ms. Kobler, Mr. Liu, Mr. Wang, Mr. Qu, Mr. Martin Pos and Mr. Jan Rezab)
"connected person"	has the meaning ascribed thereto under the Listing Rules

"Consideration Shares"	536,100,000 new Shares to be allotted and issued by the Company
"COOP"	Coop Investment Company Ltd., a company incorporated in BVI, which is wholly owned by an Independent Third Party, as at the Latest Practicable Date
"Deed of Non-Competition"	the deed of non-competition to be executed by each of Mr. Song and Ms. Fu as convenantor in favour of the Purchaser
"Director(s)"	the director(s) of the Company
"Distribution"	(1) the distribution in specie of the Consideration Shares by the Vendor; and (2) the payment of dividend by the Vendor to its shareholders, upon completion of the Repurchase, on a pro-rata basis in proportion to their respective shareholding interests in the Vendor as set out in paragraph (ii) of the section headed "The Distribution" in this circular
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Acquisition, the Specific Mandate and the Whitewash Waiver
"Enlarged Group"	the Group as enlarged by the Target Group upon Completion
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"Frost & Sullivan Report"	an industry report commissioned by the Purchaser and prepared by Frost & Sullivan dated 17 July 2017
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company
"FTHL"	Fine Time Holdings Limited (上時控股有限公司), a company incorporated in BVI, which is jointly owned by Independent Third Parties, as at the Latest Practicable Date
"Fundamental Warranties"	the fundamental warranties as set out in the Agreement which includes the title of the Sale Share, group structure of the Target Group and warranties in relation to the intellectual property rights of the Target Group
"Golden Phoenix Trust"	a trust established with Ms. Fu as the settlor of the trust and Credit Suisse Trust Limited as the trustee for the purpose of holding the interest on trust for its beneficiaries

"Grappa Trust"	a trust established with Mr. Song and Ms. Fu as the settlors and Credit Suisse Trust Limited as the trustee for the purpose of holding the interest on trust for its beneficiaries
"GRCN"	Goodbaby (China) Retail & Service Company Limited* (好孩子(中國)零售服務有限公司), a company established in the PRC with limited liability and is indirectly wholly owned by the Target as at the Latest Practicable Date
"Group"	the Company and its subsidiaries
"GRSH"	Goodbaby Retail & Service Holdings Limited (好孩子零售服務控股有限公司), a company incorporated in Hong Kong on 11 April 2016 and directly and wholly owned by the Target as at the Latest Practicable Date
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than (a) the Concert Group (to the extent any of the members owns any Shares as at the date of the EGM), and (b) those who are involved in or interested in the Acquisition and/or the Whitewash Waiver
"Independent Board Committee"	an independent committee of the Board, comprising the independent non-executive Directors and the non-executive Director, formed for the purpose of advising the Independent Shareholders on the Acquisition and the Whitewash Waiver
"Independent Financial Advisor"	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Whitewash Waiver
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected person(s) (within the meaning of the Listing Rules) of the Company or any of their respective associates
"Issue Price"	the issue price of HK$3.49 per Consideration Share
"Last Trading Date"	24 July 2017, being the last trading day prior to the date of the Announcement

"Latest Practicable Date"	1 September 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
"License"	the license with respect to the Relevant IPR to be entered into between one or more entities controlled by Mr. Song and/or Ms. Fu as the licensor and the Purchaser (or its subsidiaries) as the licensee, the principal terms of which are set out in the section headed "THE LICENSE" in the letter from the Board of this circular
"Listing Committee"	has the meaning ascribed thereto under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long-Stop Date"	24 January 2018, or such other date as may be agreed between the Purchaser and the Vendor in writing
"MBC Product(s)"	maternity, baby and children's product(s)
"Mr. Liu"	Mr. Liu Tongyou (劉同友), an executive Director
"Mr. Qu"	Mr. Michael Nan Qu (曲南), an executive Director
"Mr. Song"	Mr. Song Zhenghuan (宋鄭還), an executive Director
"Mr. Wang"	Mr. Wang Haiye (王海燁), an executive Director, and the nephew of Mr. Song
"Ms. Fu"	Ms. Fu Jingqiu (富晶秋), the spouse of Mr. Song
"Ms. Kobler"	Ms. Sharon Nan Kobler, the daughter of Ms. Fu
"PRC" or "China"	the People's Republic of China excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan
"PUD"	Pacific United Developments Limited, a company incorporated in BVI on 16 May 2002 and is owned, as at the Latest Practicable Date: (1) as to 51.19% by CAEL, (2) as to 12.37% by Powergain Global Limited (which is wholly owned by Mr. Wang), (3) as to 9.69% by Lexidirect Corporation (which is owned as to 10% by Mr. Liu), and (4) as to 26.75% by other 127 shareholders

"Purchaser"	the Company
"Reference Working Capital"	RMB -12,768,000 (negative twelve million seven hundred and sixty eight thousand) which is the working capital of the Target Group as of its audited financial statements as of 30 April 2017
"Relevant IPR"	the trademarks, domain names and related intellectual property rights to be transferred from the Vendor (or its associates) to the Purchaser (or its subsidiary) pursuant to the Agreement, including "Goodbaby"; "Goodbaby eu"; "Happy Dino"; "gb" and "family by gb"
"Relevant Period"	the period beginning 6 months immediately prior to the date of the Agreement and ending on the Latest Practicable Date
"Retained Business"	the existing business owned and operated by the Vendor and its associates comprising: (i) Mothercare Business: the operation of "Mothercare" Brands stores and sell maternity, baby and child products, products under the "Mothercare" Brands in China as authorized by Mothercare UK and other third-party brand companies. "Mothercare" Brands include "Mothercare", "ELC" and the third-party brands that the business is authorized to distribute in China or sources from their authorized distributors in China; (ii) Kids Sports business: the retail of children apparels, shoes, accessories and products for fitness and outdoor activities under international brands "Nike", "Adidas", "Skechers", "PUMA", "Converse", "GEOX", "The North Face", "Clarks", "Reebok" and "Columbia" etc in China through its online and offline retail outlets including retail stores named "gb Kids Station 好孩子星站"; (iii) Mamahao ("媽媽好") Business: an O2O platform focusing to provide comprehensive service to pregnant women and parenting family; and (iv) Diaper OEM manufacturing business: the manufacturing of diapers for oversea third parties brands.
"Repurchase"	the repurchase and cancellation by the Vendor of its shares held by VLVL, WAWA, FTHL and COOP as set out in paragraph (i) of the section headed "The Distribution" in the letter from the Board of this circular

"Restructuring"	(1) the transfer of the equity interest of the relevant Target Group companies from Goodbaby China Commercial Limited (好孩子(中國) 商貿有限公司) to GRCN; (2) the purchase of the 13.04% minority interest in Kunshan Goodbaby Yi Jia Retail Company Limited (昆山好孩子易家零售有限公司); and (3) the capital reduction and disposal of Goodbaby (Shangqiu) Commercial Company Limited (好孩子 (商丘)商貿有限公司) by GRCN
"RMB"	Renminbi, the lawful currency of the PRC
"ROSL"	Rosy Phoenix Limited, a company incorporated in the Independent State of Samoa on 3 September 2013 and indirectly held by Credit Suisse Trust Limited as the trustee of the Golden Phoenix Trust
"Sale Share"	the entire issued capital of the Target as at Completion
"Self-owned Brands"	"Family by GB" and "gb"
"SGIL"	Sure Growth Investments Limited, a company incorporated in BVI on 20 April 2000 and is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 16.67% by Mr. Wang, as to 11.11% by Mr. Liu and as to 5.56% by Mr. Qu as at the Latest Practicable Date
"Share Options"	share options of the Company granted by the Company under the share option scheme adopted on 5 November 2010
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"SIML"	Silvermount Limited, a company incorporated in the Independent State of Samoa and is wholly owned by Mr. Liu as at the Latest Practicable Date
"Specific Mandate"	the specific mandate proposed to be obtained by the Directors from the Independent Shareholders at the EGM to allot and issue the Consideration Shares at the Issue Price
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto under the Listing Rules

"substantial shareholder"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
"Target Group"	the Target and its subsidiaries
"Target" or "Target Company"	Oasis Dragon Limited, an international company incorporated in the Independent State of Samoa on 13 November 2015 and directly and wholly owned by the Vendor as at the Latest Practicable Date
"US$"	United States dollar, the lawful currency of the United States
"Vendor"	Goodbaby China Holdings Limited (好孩子中國控股有限公司), an exempted company incorporated in the Cayman Islands on 30 July 2012 with limited liability
"VLVL"	Victor Lead Ventures Limited (凱利創投有限公司), an investment holding company incorporated in BVI, which is owned by Independent Third Parties as at Latest Practicable Date
"WAWA"	WAWA Investment Company Ltd., an investment holding company incorporated in BVI, which is wholly owned by Independent Third Parties as at the Latest Practicable Date
"Whitewash Applicant"	PUD
"Whitewash Waiver"	the waiver from the Executive pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Whitewash Applicant to make a mandatory general offer for all of the Shares and other securities of the Company not already owned or agreed to be acquired by the Concert Group which would, if the Acquisition proceeds, otherwise arise as a result of the issue of the Consideration Shares
%	per cent

Exchange rates

Unless otherwise stated, amount in RMB has been translated into HK$ at exchange rate of HK$1.00 to RMB0.863 for illustration purposes only. No representation is made that any amount in RMB or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

Unless otherwise stated, amount in RMB has been translated into US$ at exchange rate of US$1.00 to RMB6.777 for illustration purposes only. No representation is made that any amount in RMB or US$ can be or could have been converted at the relevant dates at the above rates or any otherrates at all.

Unless otherwise stated, amount in US$ has been translated into HK$ at exchange rate of HK$1.00 to US$0.128 for illustration purposes only. No representation is made that any amount in US$ or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

* *for identification purposes only.*

Goodbaby International Holdings Limited
好孩子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1086)

Executive Directors:
Mr. SONG Zhenghuan *(Chairman)*
Mr. Martin POS
Mr. LIU Tongyou
Mr. Michael Nan QU
Mr. WANG Haiye
Mr. Jan REZAB

non-executive Director:
Mr. HO Kwok Yin, Eric

Independent Non-executive Directors:
Mr. Iain Ferguson BRUCE
Mr. SHI Xiaoguang
Ms. CHIANG Yun
Mr. JIN Peng

Registered office:
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Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office
28 East Lufeng Road, Lujia Town,
Kunshan City
Jiangsu Province, 215331
PRC

Principal place of business:
Room 2001, 20th Floor
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

4 September 2017

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition and the Whitewash Waiver; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser in relation to the Acquisition and the Whitewash Waiver; and (iv) a notice of the EGM.

THE ACQUISITION

On 24 July 2017 (after trading hours), the Purchaser and the Vendor entered into the Agreement. The principal terms of the Agreement are set out below.

Subject Matter

The Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Share.

The Sale Share, represents the entire issued share capital of the Target at Completion.

The Target Group has the following core businesses: (i) the product development, brand management and distribution of leading Self-owned Brands in maternity and baby-care products and apparel products; and (ii) one of the largest retail networks for MBC Products in China, a leading omni-channel sales platform provides customers with its Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products.

Consideration

The consideration for the Sale Share is US$360,000,000 (equivalent to approximately HK$2,812,176,000), subject to the adjustment set out below. It will be satisfied as to US$120,485,816 (equivalent to approximately HK$941,187,000) by the payment of the Cash Consideration and as to the balance by the allotment and issue of the Consideration Shares at the Issue Price credited as fully paid.

Adjustment

The consideration is subject to an upward or downward adjustment. The upward adjustment is subject to a cap of US$36,000,000 (after taking into account the net impact of the adjustments in (i) and (ii) below) whereas the downward adjustment is not subject to any cap. The details of adjustments are:

(i) Debt-free and cash-free adjustment:

(a) where the amount of the external debt and external debt equivalent (including (i) bank borrowing; (ii) tax payable; and (iii) deferred tax), of the Target Group as at Completion is higher than the amount of (i) the cash and cash equivalent; and (ii) amount due from related parties of the Target Group (which is to be fully settled as at Completion) as at Completion, the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash within 30 business days (as defined in the Agreement) after the date of finalising the Completion Statement; or

(b) where the amount of the cash and cash equivalent and amount due from related parties of the Target Group as at Completion is higher than the amount of the external debt and external debt equivalent of the Target Group as at Completion, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser, in cash within 30 business days (as defined in the Agreement) after the date of finalizing the Completion Statement, and

(ii) Working capital adjustment:

(a) where the Actual Working Capital is lower than the Reference Working Capital, the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash within 30 business days (as defined in the Agreement) after the date of finalizing the Completion Statement; or

(b) where the Actual Working Capital is higher than the Reference Working Capital, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser in cash within 30 business days (as defined in the Agreement) after the date of finalizing the Completion Statement.

The Reference Working Capital is RMB -12,768,000 (negative twelve million seven hundred and sixty eight thousand), being the inventory, trade and notes receivables, prepayments, deposits and other receivables, trade payables, other payables and accruals and amount due to related parties of the Target Group as at 30 April 2017. The Target Group is able to maintain negative working capital due to the longer credit term granted to the Target Group by its suppliers as compared to the credit period that the Target Group grants to its customers, while inventory turnover has been relatively stable. A credit period of 80 to 120 days is granted by suppliers to the Target Group. In contrast, the Target Group generally does not grant credit period to distributors and grants a credit period ranging from 30 days to 50 days to other customers. Moreover, other payables and accruals, which comprise trade related items occurred in the normal course of business including advances from customers, commission payable to third party online platforms, accrued online marketing and promotion costs, and commission and bonus for sales force, has been increasing over the three years and six months period ended 30 June 2017 as the Target Group expands its business and develops its online and wholesale channels in addition to the offline retail channel, thus contributing to the negative working capital balance.

Security

The Consideration Shares will be allotted and issued at Completion and settled as follows:

a) the Consideration Shares, being 536,100,000 new Shares, will be held by the shareholders of the Vendor upon completion of the Repurchase and the Distribution; and

b) 80,578,109 of the Consideration Shares (the "**Charged Consideration Shares**"), being 10% of the Consideration, will be charged to the Purchaser or its wholly-owned subsidiary by the shareholders of the Vendor (upon completion of the Repurchase and the Distribution) as security to cover any claims the Purchaser may have against the Vendor which is not otherwise settled pursuant to the terms of the Agreement, including any amount payable under the adjustment as set out above. If there were no outstanding claims against the Vendor, the Charged Consideration Shares shall be returned to the shareholders of the Vendor (upon completion of the Repurchase and the Distribution) on the 540th calendar day following the Completion Date.

The Company will not be holding its own Shares. The chargors (that is, PUD, CAEL, SGIL, ROSL and SIML) remain the beneficial owners of the Charged Consideration Shares, and have the right to exercise all voting rights attaching to such Shares, unless and until there is enforcement of security. The ownership in such Shares will not pass to the Company upon enforcement.

Basis of the consideration

The consideration has been determined after arm's length negotiation between the parties with reference to the prevailing market condition, the historical operating and financial performance, the growth prospect of the Target Group, and benchmarking price-earnings ratios of comparable companies, comprising 1) leading global MBC Products brands or retailers which offer non-durable juvenile products such as toys, baby care products and baby and children's apparel, or durable juvenile products such as car seats and strollers; and 2) Hong Kong listed specialty retailers operating in China. The comparable companies are selected on the basis that they engage in similar business as the Target Group, which is the product development, distribution or retail of MBC Products, or the operation of a large retail network in China. The comparable companies are listed on the Stock Exchange or other major global stock exchanges. Only those companies with public financial information for the twelve months ended June 30, 2017 are taken into consideration for comparison purpose.

We note that the implied price-earnings ratio of the Sales Share taking into account the consideration of US$360,000,000 divided by the RMB175.4 million audited net income after tax of Target Group for the twelve months ended 30 June 2017 is approximately 13.9 times and is lower than the range of price-earnings ratio (based on share prices as of 1 September 2017 and respective net income after tax for the twelve months ended 30 June 2017) of the comparable companies which is between 16.4 times to 26.6 times and average being 20.7 times.

The cash consideration payable by the purchaser will be funded from bank loans and internal resources.

The proposed issue of the Consideration Shares and the payment of the Cash Consideration was arrived at after due and careful consideration by the Board. While the issue of the Consideration Shares will result in a dilution in the shareholdings in percentage terms of the existing public shareholders, having taken into account various factors as set forth below, the dilution effects on the shareholding of the existing Public Shareholders are considered acceptable.

Having considered the cash and cash equivalents of the Group as at 31 December 2016 which was approximately HK$758.2 million, the Company does not have sufficient cash to satisfy the entire consideration for the Acquisition with cash on hand. While the Directors considered that it was possible to satisfy the entire consideration by way of debt financing, the Directors were of the view that the consideration should be satisfied as to one-third in cash (in a combination of bank loans and internal resources) and the remaining portion in Consideration Shares best having considered (i) funding requirements for the Group's further business development and expansion; (ii) the Group's dividend policy, (iii) the Group's general working capital requirements; (iv) the desire of the Group to maintain leverage at similar level post the Acquisition to maintain effective debt costs; (v) potential disadvantages of other equity financing alternatives as discussed below; (vi) and the willingness of the Vendor to accept the Consideration Shares issued at a price premium to the closing price of the Shares on the Last Trading Date and average closing price of the Shares for the Last 30 full trading days up to and including the Last Trading Date which demonstrates the Vendor's positive view in the growth prospects of the business of the Target Group and that of the Group.

The Company has considered other methods of equity financing. Currently, the issue price of HK$3.49 per Consideration Share represents premium to the closing price of the Last Trading Date and average closing price of the last 30 full trading days up to and including the Last Trading Date. In contrast, fund raising by way of issue new shares to independent third parties (e.g. new share placement) or to existing shareholders (e.g. rights issue or open offer) on a pro rata basis is usually priced at a discount to the prevailing market price.

Based on the latest financial position of the Target Group, the Directors confirm that there is currently no intention to inject further capital into the Target Group upon or after Completion, or does the Target Group have any foreseeable fund raising requirements.

The Issue Price

The Issue Price of the Consideration Shares represents:

1. a premium of approximately 6.4% from HK$3.28, the closing price of the Shares on the Stock Exchange on the Last Trading Date;

2. a premium of approximately 5.1% from HK$3.32, the average closing price of Shares on the Stock Exchange for the last 5 full trading days up to and including the Last Trading Date;

3. a premium of approximately 4.2% from HK$3.35, the average closing price of Shares on the Stock Exchange for the last 10 full trading days up to and including the Last Trading Date;

4. a premium of approximately 4.8% from HK$3.33, the average closing price of Shares on the Stock Exchange for the last 30 full trading days up to and including the Last Trading Date;

5. a premium of approximately 57.2% to the audited net asset value of the Group of approximately HK$2.22 per Share as at 31 December 2016; and

6. a discount of approximately 15.3% over the closing price of HK$4.12 per Share on the Stock Exchange on the Latest Practicable Date.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will rank pari passu in all respects with the Shares in issue at the date of issue including in respect of all dividends and distributions declared, made or paid on or after such date of issue.

Conditions Precedent

Completion is subject to the fulfillment (or, if applicable, the waiver) of the following conditions:

1. the Executive granting the Whitewash Waiver and the Whitewash Waiver not being revoked or withdrawn;

2. the approval of the Independent Shareholders in the EGM by way of a poll in respect of:

   (a) the entering into of the Agreement and the performance of all other transactions contemplated under the Agreement;

   (b) the Specific Mandate in relation to the allotment and issue of the Consideration Shares; and

   (c) the Whitewash Waiver, each in accordance and in compliance with the Listing Rules and the Takeovers Code;

3. the Listing Committee having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;

4. the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC:

   (a) approving the transactions contemplated under the Agreement unconditionally or on conditions which do not have any material effect on the business of the Purchaser and/or its subsidiaries and/or the Target Group, or

   (b) having been deemed under the Anti-Monopoly Law of the PRC to have approved the transactions contemplated under the Agreement upon the expiry of the statutory time periods for review by the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC;

5. the Purchaser having received a signed original legal opinion from a PRC legal advisor addressed to the Purchaser, relating to the due diligence of the Target Group as to PRC law, the good standing, due incorporation and subsistence of the Target Group established in the PRC, the Restructuring and the License in the form reasonably satisfactory to the Purchaser;

6. the deed of acknowledgement and undertaking having been executed by (among others) the relevant Vendor's controlled entities in the form acceptable to the Purchaser and the Vendor pursuant to which each such entity controlled by Mr. Song and Ms. Fu undertakes to cease to use certain trade names if Mr. Song and Ms. Fu cease to control such entity;

7. (a) the Fundamental Warranties remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date; and

   (b) the Vendor having materially complied with its obligations under the Agreement in respect of its pre-closing obligations or having remedied any breaches of such obligations (if capable of being remedied) as at the Completion Date;

8. the Deed of Non-Competition having been executed by Mr. Song and Ms. Fu in favour of the Purchaser;

9. no notice, order, judgment, action or proceedings of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transactions contemplated by the Agreement or which is reasonably likely to materially and adversely affect the right of the Purchaser to own the legal and beneficial title to the Sale Share, free from encumbrances;

10. (a) the deeds of assignment or transfer for the assignment or transfer (as the case may be) of the Relevant IPR having been executed by the Vendor (or other entities controlled by Mr. Song and/or Ms. Fu) to the Purchaser or other members of the Target Group; and

    (b) the License in the form acceptable to the Purchaser and the Vendor having been executed by the relevant parties thereto; and

11. no material adverse change having occurred between the date of the Agreement and the Completion Date subject to certain exception customary to transaction of this nature and size.

The Purchaser or the Vendor, may at any time, waive in whole or in part and conditionally or unconditionally any of the conditions precedent set out above (other than the conditions precedent 1 to 4 above) by notice in writing to the other party.

If the conditions precedent set out above are not satisfied or waived (except that the conditions precedent 1 to 4 above which cannot be waived) on or before the Long-Stop Date, either the Purchaser or the Vendor may (as the case may be), in its sole discretion, terminate the Agreement as long as the terminating party has complied with its obligations in terms of using its reasonable efforts to fulfill the conditions precedent.

As at the Latest Practicable Date, none of the conditions precedent set out above have been satisfied or waived (if applicable).

Deed of Non-Competition

Pursuant to the Deed of Non-Competition, with effect from Competition, each of Mr. Song and Ms. Fu shall undertake to the Purchaser that he/she will not, and will procure his/her close associates not to directly or indirectly be involved in or undertake any business (other than the business of the Purchaser and its subsidiaries (the "**Business**")) that directly or indirectly competes, or may compete, with the Business, or hold shares or interest in any companies or business that compete directly or indirectly with the Business from time to time save and except for : (i) the interest they held in PUD; (ii) the interest in the Retained Business; (iii) the less than 5% interest in any company the shares of which are listed on the Stock Exchange or any other stock exchange which is engaged in, involved in or undertake any business that is or may be in competition with the Business without controlling 10% or more of the composition of the board of directors of such company; and (iv) the interest in any business which has been referred to the Purchaser by Mr. Song and/or Ms. Fu and/or any of their close associates and the Purchaser has failed to respond to or declined the opportunity to pursue such business.

The Deed of Non-Competition will lapse automatically on the earlier of (i) the date on which the Shares cease to be listed on the Stock Exchange; or (ii) the date on which Mr. Song and Ms. Fu together, directly or indirectly, hold less than 30% of the issued shares capital of the Purchaser.

Completion

Completion will take place on the fifth business day of the date on which the last of the conditions precedent (other than the conditions precedent which by their terms are to be satisfied at Completion) is satisfied or waived in accordance with the Agreement (or such other date as may be notified by the Purchaser to the Vendor in writing).

THE DISTRIBUTION

At Completion, the Vendor will:

i apply the Cash Consideration to repurchase and cancel its shares held by VLVL, WAWA, FTHL and COOP at a commercially agreed repurchase price. Upon completion of such repurchase, the Vendor will be held as to 28.07% by PUD, as to 26.02% by CAEL, as to 24.12% by SGIL, as to 16.37% by ROSL and as to 5.42% by SIML; and ii upon completion of the Repurchase, distribute the Consideration Shares to its shareholders on a pro-rata basis in proportion to their respective shareholding interests. Upon completion of such distribution, the Company will be held as to 24.73% by PUD, as to 8.42% by CAEL, as to 7.81% to SGIL, as to 5.30% by ROSL, and as to 1.75% by SIML.

At Completion, the issue of the Consideration Shares, the Repurchase and the Distribution will take place simultaneously such that the Consideration Shares will be issued directly to PUD, CAEL, SGIL, ROSL and SIML. Notwithstanding the simultaneous completion, the Distribution and Repurchase are arrangements between the Vendor and its shareholders, VLVL, WAWA, FTHL and COOP only.

The price payable to VLVL, WAWA, FTHL and COOP in the Repurchase will be determined with reference to (i) the value of the number of the Consideration Shares that they would have received in a distribution if the Repurchase had not taken place; and (ii) the value of the remaining business of the Vendor upon Completion. As such, the price payment to VLVL, WAWA, FTHL and COOP in the Repurchase will be higher than the value of the Consideration Shares received by the other shareholders of the Vendor only because the remaining shareholders of the Vendor will retain their interest in the retained business of the Vendor through their respective shareholdings in the Vendor.

THE LICENSE

At Completion, the Purchaser (or its subsidiaries) and the Vendor (or one or more entities controlled by Mr. Song and/or Ms. Fu) shall enter into 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 principal terms of the License are set out below.

Parties:	One or more entities controlled by Mr. Song and/or Ms. Fu as the licensor; and The Purchaser (or its subsidiary) as the licensee
Term:	The period commencing on the Completion Date and ending on the date on which the Purchaser (or its subsidiary) shall become the registered owner of the Relevant IPR
Subject matter:	The licensing of the Relevant IPR on a royalty-free, non-exclusive (to the extent that the Relevant IPR may only be used by the one or more entities controlled by Mr. Song and/or Ms. Fu) and non-transferrable basis for the use by the Purchaser or any of its subsidiaries.
Protection of Relevant IPR:	The licensee shall have the right to request the licensor to defend on its behalf in the event of any infringement by third parties. Any damages received shall belong to the licensee.

SHAREHOLDING STRUCTURE

Assuming that there are no other changes in the issued share capital of the Company after the Latest Practicable Date, the following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon Completion and completion of the Repurchase and the Distribution:

Name of Shareholders	As at the Latest Practicable Date		Immediately upon Completion and completion of the Repurchase and the Distribution (Note 1)	
	Number of Shares	Approximate percentage of total issued Shares	Number of Shares	Approximate percentage of total issued Shares
The Concert Group				
PUD	259,000,000	23.13%	409,518,229	24.73%
Mr. Song (Note 3)	—	—	—	—
Ms. Fu (Note 3)	—	—	—	—
Ms. Kobler	—	—	—	—
Mr. Liu (Note 3)	—	—	—	—
Mr. Wang (Note 3)	—	—	—	—
Mr. Qu (Note 3)	—	—	—	—
CAEL	—	—	139,476,352	8.42%
SGIL	—	—	129,293,975	7.81%
ROSL	—	—	87,753,871	5.30%
SIML	—	—	29,057,573	1.75%
SUBTOTAL	259,000,000	23.13%	795,100,000	48.01%
Mr. Martin Pos (Note 2)	39,033,498	3.48%	39,033,498	2.36%
Mr. Jan Rezab (Note 2)	—	—	—	—
VLVL	—	—	—	—
WAWA	—	—	—	—
FTHL	—	—	—	—
COOP	—	—	—	—
Other public Shareholders	821,804,502	73.39%	821,804,502	49.63%
TOTAL	1,119,838,000	100.00%	1,655,938,000	100.00%

Notes:

1. Assuming that no other Shares are issued other than the Consideration Shares from the Latest Practicable Date until Completion.

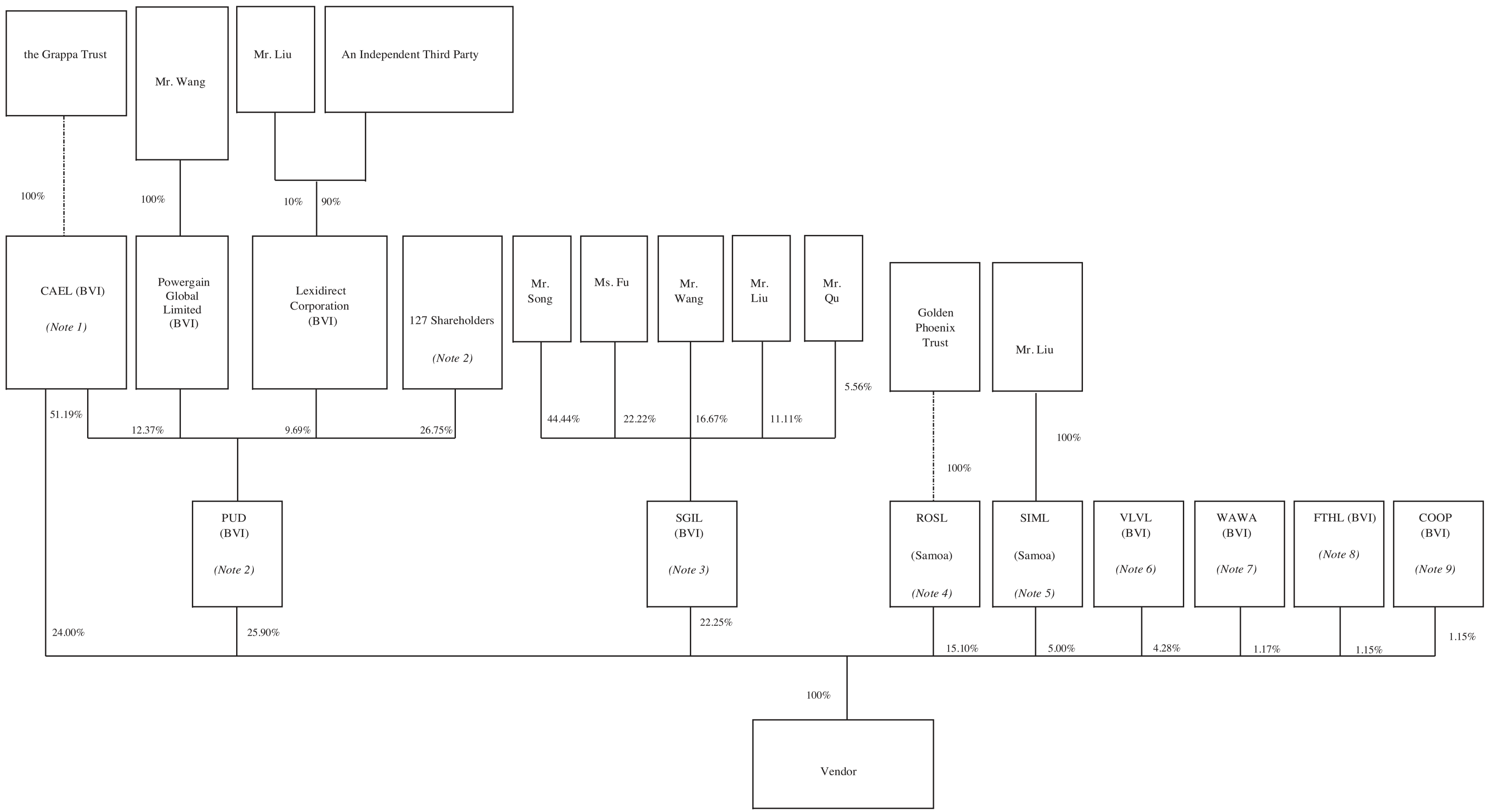
2. Each of Mr. Martin Pos and Mr. Jan Rezab is presumed to be acting in concert with PUD under class (6) presumption until Completion. This class (6) presumption will cease to apply after Completion.

3. Each of the following members of the Concert Group is interested in the underlying Shares of the Company in respect of the Share Options granted to him/ her:

Member of the Concert Group	Number of underlying Shares
Mr. Song	1,390,000
Ms. Fu	1,390,000
Mr. Martin Pos	2,400,000
Mr. Liu	2,400,000
Mr. Qu	2,400,000
Mr. Wang	2,400,000
Mr. Jan Rezab	5,000,000

INFORMATION ON THE VENDOR

The Vendor is an investment holding company incorporated in the Cayman Islands. As at the Latest Practicable Date, the Vendor is held as to 25.90% by PUD, as to 24.00% by CAEL, as to 22.25% by SGIL, as to 15.10% by ROSL, as to 5.00% by SIML, as to 4.28% by VLVL, as to 1.17% by WAWA, as to 1.15% by FTHL and as to 1.15% by COOP. The following chart sets out the shareholding structure of the Vendor as at the Latest Practicable Date:



Notes:

1. CAEL is indirectly held by Credit Suisse Trust Limited. Credit Suisse Trust Limited is the trustee holding such interest on trust for the beneficiaries of the Grappa Trust that include Mr. Song, Ms. Fu, and their family members.

2. PUD, a substantial shareholder of the Company, is owned as to approximately 51.19% by CAEL, as to approximately 12.37% by Powergain Global Limited, as to approximately 9.69% by Lexidirect Corporation, and as to approximately 26.75% by other 127 shareholders (including approximately 0.76% held by Ms. Kobler). These 127 shareholders are current employees or ex-employees of the Group. None of these 127 shareholders holds more than 4% in PUD on an individual basis. Lexidirect Corporation is owned as to 10% by Mr. Liu, and as to 90% by an Independent Third Party; Powergain Global Limited is wholly owned by Mr. Wang, the nephew of Mr. Song.

3. SGIL is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 16.67% by Mr. Wang, as to 11.11% by Mr. Liu and as to 5.56% by Mr. Qu.

4. ROSL is indirectly held by Credit Suisse Trust Limited as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the trust and Credit Suisse Trust Limited is the trustee holding such interest on trust for the beneficiaries that include Ms. Fu.

5. SIML is wholly owned by Mr. Liu.

6. VLVL is an Independent Third Party.

7. WAWA is an Independent Third Party.

8. FTHL is an Independent Third Party.

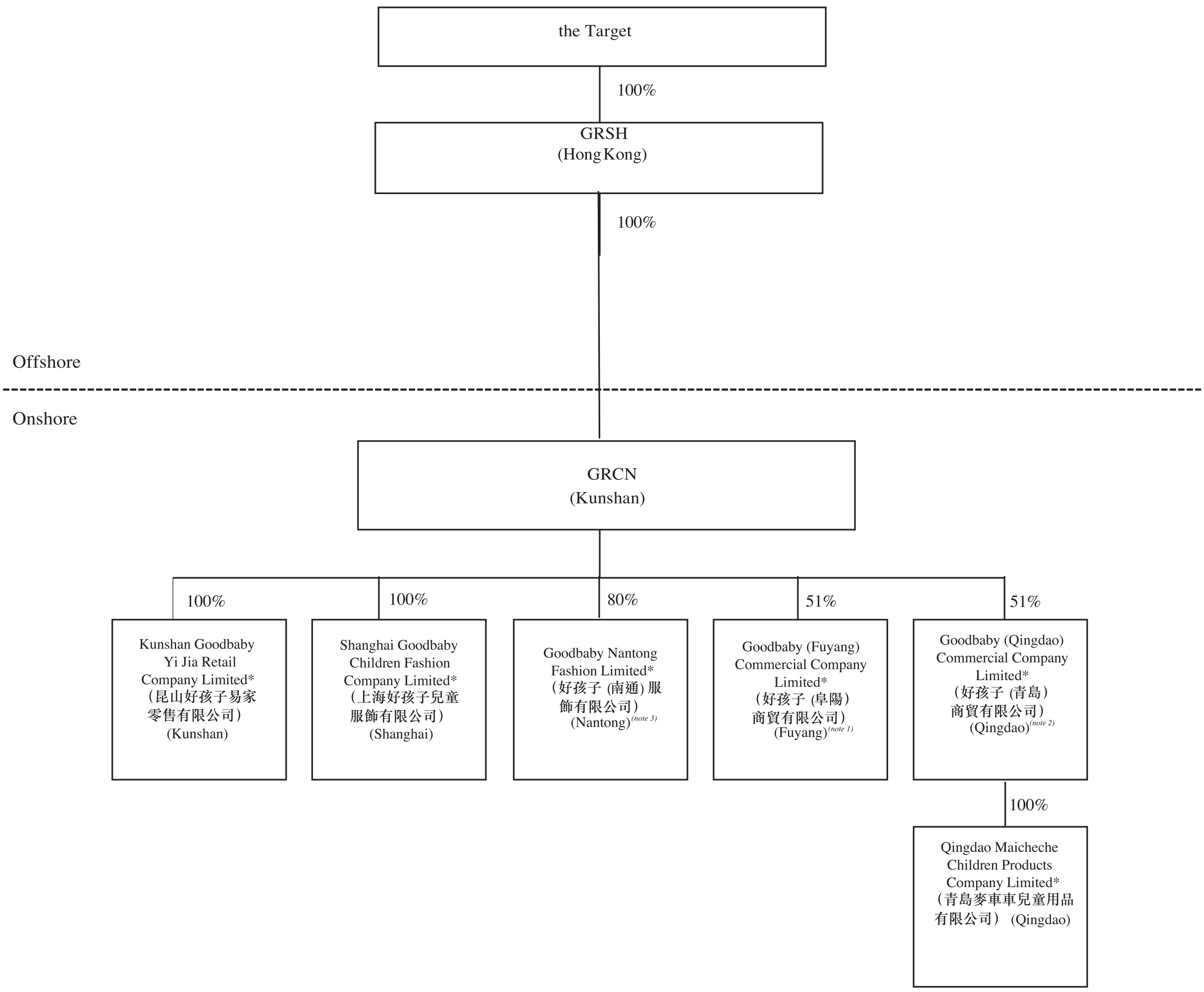
9. COOP is an Independent Third Party.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, except PUD, SGIL, CAEL, ROSL and SIML as disclosed above, the other shareholders of the Vendor are Independent Third Parties.

THE TARGET GROUP

Structure of the Target Group

The following chart sets out the corporate structure of the Target Group as at the Latest Practicable Date:



Notes:

1. The remaining 49% was held by Anhui Guoguo Children Products Sales Company Limited* (安徽果果兒童用品銷售有限公司), an Independent Third Party.

2. The remaining 49% was held by Mr. Zhang Benjin, an Independent Third Party.

3. The remaining 20% was held by Ms. Li Xiaofeng, an Independent Third Party.

Business and Brands

The Target Group has the following core businesses: (i) the product development, brand management and distribution of leading Self-owned Brands in maternity and baby-care products and apparel products; and (ii) one of the largest retail networks for MBC Products in China, a leading omni-channel sales platform that provides customers with its Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products.

(i) *Product development, brand management and distribution of leading Self-owned Brands*

The Target Group designs, develops and distributes maternity and baby-care products and babies and children apparel products under the Self-owned Brands of "gb" and "Family by GB". Maternity and baby-care products include nursing, feeding and personal care products such as diapers, pacifiers, bottles, tableware, skincare, toiletries, baby wipes, small appliance, and skincare products, shampoo and hygiene products. Babies and children apparel products include apparel for infants and toddlers (0-4 years old) and children (5-8 years old) as well as home textile products such as bedding and accessories.

The Target Group owns the "gb" brand under different categories of the "gb" trademarks. The Target Group has a dedicated in-house product design, research and development team, which comprised 44 designers and product managers as of 30 June 2017. The Target Group outsources the production of all products to selected OEM contractors and sells products under the Self-owned Brands as of 30 June 2017 on its omni-channel sales platform and through 406 offline distributors.

Non-durable MBC Products include maternity and baby-care products, apparel and footwear, and home furnishing products etc. According to the Frost & Sullivan Report commissioned by the Purchaser, the Target Group was a leading brand in China's non-durable MBC products market by retail sales value in 2016. This is primarily attributable to its strong product development capabilities coupled with well-established online and offline channels to distribute its products. As of 30 June 2017, it had registered 41 patents in China, comprising 27 design patents and 14 utility patents. The Target Group utilizes global resources in product development to continuously improve the product design, function and quality of its maternity and baby-care products. For example, in 2016, working together with a German designer team, the Target Group developed special molds of functional milk bottles that encourage infants to develop eating habits while providing real sense of breast milk. The Target Group also launched new personal care products for newborns in 2016 with nature and healthy ingredient sourced from best country of origin. In the babies and children apparel segment, the Target Group incorporated new brand positioning in 2016 and has broadened its product offering and significantly enhanced product newness to meet the evolving customers' demands. The Target Group also successfully developed home textile products such as bedding and accessories in 2015 which contributed to Target Group's strong revenue growth since second half of 2016.

(ii) *one of the largest retail network for MBC Products in China, a leading omni-channel sales platform provides customers with its Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products.*

The Target Group has a well-established omni-channel retail sales platform that comprises online self-operated stores, online key accounts and other online third party retailers and offline self-operated stores as well as other offline retail channels which sell products under the Self-owned Brands and the Group's durable juvenile products.

Omni-channel Retail Sales Platform

The Target Group's online retail network

As at 30 June 2017, the Target Group's online retail network consisted of:

- self-operated online retail network, which included (i) the Target Group's own web-based platform, haohaizi.com, and (ii) six self-operated flagship stores on third-party online platforms;

- retail platforms of four online key accounts, all of which are leading e-commerce companies in China;

- online third party retailers who on-sell the products to end-customers online.

The Target Group's offline retail network

The Target Group has established an extensive and well-managed offline retail network, which, as at 30 June 2017, consisted of:

- *Self-operated stores.* The Target Group owned and operated 986 self-operated stores located within department stores, shopping malls and at street level;

- *Offline others.* The Target Group had sales arrangements with 54 operators of supermarkets and *hypermarkets* and group purchase customers.

Development of retail network

The following table provides a breakdown of the Target Group's online and offline retail network as at the dates indicated.

Retail Network	**As at 31 December**			**As at 30 June**
	2014	**2015**	**2016**	**2017**
Online				
Self-operated online retail[1]	7	7	8	7
Online key accounts' retail[1]	4	4	4	4
Online third-party retailers	110	139	161	183
Offline				
Self-operated offline retail[2]	840	885	945	986
Offline others[3]	50	52	53	54

Notes:

1. Included (i) the Target Group's own web-based sales platform, haohaizi.com and (ii) flagship stores on third-party online platforms.

2. Included stores operated by the Target Group and located within department stores, shopping malls and stores at street level. For department stores, the Target Group typically sells products in arrangements where it has several separate outlets within a single department store; these arrangements are counted as one store. In addition to revenue from the Target Group's self-operated offline stores, its self-operated offline retail segment's revenue included revenue generated from its offline sales promotion events organized by its headquarters and branch offices.

3. Included operators of supermarkets and hypermarkets and group purchase customers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is certain selected financial information of the Target Group based on its audited consolidated financial statements for the three years ended 31 December 2016 and for the 6 months ended 30 June 2017.

	For the year ended 31 December 2014	**For the year ended 31 December 2015**	**For the year ended 31 December 2016**	**Six months ended 30 June 2016**	**Six months ended 30 June 2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,678,738	1,854,631	1,937,395	920,669	1,205,911
Net profit before tax	109,095	135,840	136,258	44,988	144,687
Net profit after tax	80,685	101,594	100,799	32,892	107,510

As at 31 December 2016, based on the audited financial statements of the Target Group, the net asset value of the Target Group was RMB72,725,000 (equivalent to approximately HK$84,244,608. As at 30 June 2017, based on the audited financial statements of the Target Group, the net asset value of the Target Group was RMB168,623,000 (equivalent to approximately HK$195,332,808).

Details of the financial information of the Target Group together with a discussion are set out in Appendix IIA and IIB of this circular.

FINANCIAL EFFECTS OF THE ACQUISITION

Assets and liabilities

Based on the unaudited pro forma financial information set out in Appendix II to this circular, the total assets of the Group as at 30 June 2017 would increase from approximately HK$6,199,376,000 to approximately HK$9,257,764,000, and its total liabilities as at 30 June 2017 would increase from approximately HK$3,551,441,000 to approximately HK$4,768,610,000, as a result of the Acquisition.

Earnings

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group and the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group.

Gearing

Gearing ratio is defined as net debt divided by the sum of equity attributable to owners of the parent and net debt at the end of each financial year. Net debt is defined as the sum of trade payables, other payables and accruals, current and non-current interest-bearing bank borrowing and amounts due to related parties, minus cash and cash equivalents.

As at 30 June 2017, the Group's gearing ratio is approximately 48.6%. As at the same date and as set out in Appendix II to the Circular, the Target Group did not have any borrowings. On a pro forma basis, the enlarged Group's gearing ratio would broadly remain the same, at approximately 47.0%.

INFORMATION ON THE GROUP

The Company is a limited liability company incorporated in the Cayman Islands which is the ultimate holding company of the Group.

The Group is a leading international durable juvenile products company, primarily engaged in the design, research and development, manufacture, marketing and sales of strollers, children's car safety seats, cribs, bicycles and tricycles and other durable juvenile products. The Group strategically focuses on its own brands such as "Cybex", "gb" and "Evenflo" and also provides product development and manufacturing services to blue chip OEM customers.

EQUITY FUND RAISING ACTIVITIES IN LAST 12 MONTHS

Shares were issued by the Company upon the exercise of Share Options previously granted by the Company. The exercise monies received amounted to HK$10,739,920 and were used for general working capital of the Group.

Save as aforesaid, the Company has not undertaken any equity fund-raising exercise in the 12 months immediately preceding the date of the Agreement and up to the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE ACQUISITION

A Unique Opportunity — at the Right Time of the Development of the Group

Since the listing of the Group, the Group has been focusing its business on the durable juvenile products and successfully transformed from an OEM-driven company, into a multi-brand, global leading durable juvenile products company with a brand-driven, one-dragon, vertically integrated business model. Such achievements were the results of the successful acquisition of "Cybex" and "Evenflo" in 2014, where the Group has since continuously invested in the transformation, in-depth integration and roll out of internationally managed management platform for further development and sustainable growth.

As part of the continuous growing strategy, the Group believes it is critical and at the right timing to (1) further broaden the Group's product portfolio from its existing durable juvenile products into holistic and complementary MBC Products with a much larger addressable market, higher multi-category growth and better profitability potentials, (2) capture the robust growth in China's MBC Products market driven by consumption upgrade and favorable two-child policy through expanding directly into online and offline retail sales channels. As the Group is implementing the BOOM strategy which integrates branding with online and offline business model, it is critical to penetrate into online and offline retail sales channel directly in order to build up an eco-system and provide customer value-add services and convenient shopping experience while promoting its brands directly and effectively, and (3) leverage such interactions with end-customers to build a consumer-oriented and brand-driven ecosystem in China for the Group.

The Target Group is a leading MBC brand company in China with a leading omni-channel sales platform for MBC Products. The company focuses on: (i) the product development, brand management and distribution of leading Self-owned Brands in maternity and baby-care products and apparel products; and (ii) one of the largest retail network for MBC Products in China, a leading omni-channel sales platform provide customers the Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products. With its core strengths in holistic complementary maternity and baby-care and apparel product portfolio and omni-channel sales platform for MBC Products with leading position both online and offline. The combination of the Group and the Target Group represents a unique opportunity for the Group to further implement its one-dragon, vertically integrated business model by broadening the Group's product portfolio, improving growth and profitability, further strengthening its penetration and capturing the growth opportunity in China's MBC Products industry with self-operated retail network and ultimately interacting directly with end-customers. The Group believes that such strategies are critical in today's new age of becoming a globally leading MBC Products brand company, and is at critical time to be enacted at this stage of the Group's development to take advantage of the current market growth opportunity and acquire the Target Group at an attractive valuation to the Group.

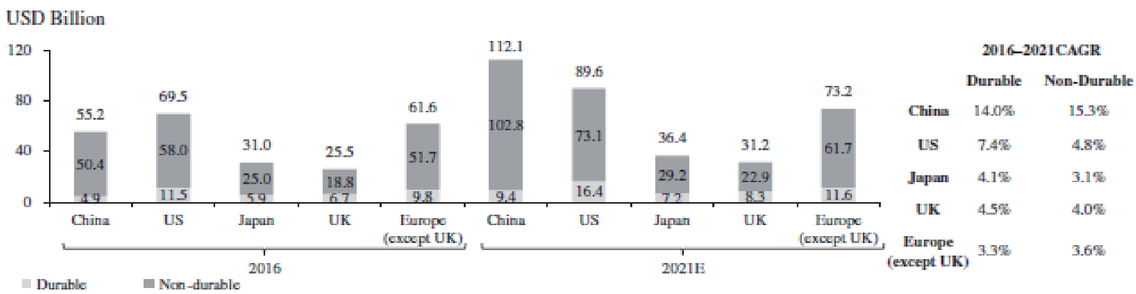
Furthermore, prior to Completion, the Group has been selling a significant part of its products through the Target Group's retail platforms which created additional administrative and distribution cost to the Group and there was coordination cost for the Group and the Target Group prior to the Completion as both companies own different categories of the "gb" brand, such cost can be reduced upon Completion. Moreover, the consolidation of the Group and the Target Group will create a fully-integrated global comprehensive MBC Products brand with direct access and interaction to the end users of the Group's MBC Products, which will enable the Group to provide value-added services and enhance customer shopping experience and hence increase their loyalty to the "gb" brand, allowing the Group to become an active and competitive player in the market of MBC Products.

Broaden the Group's Product Portfolio to Complement the Group's Products with a Much Larger Addressable Market, Higher Multi-product Category Growth and Better Profitability Potentials

The Group has enjoyed leading market share globally for durable juvenile products with particular strengths in strollers and car seats. The Target Group conversely has developed strong product research and development capability and brand awareness for non-durable MBC Products, including maternity and baby-care products, such as nursing, feeding and personal care products, and babies and children apparel products. Consequently, complementary product lines and core competencies between the Group and the Target Group are expected to lead to the Group's further transformation into a global comprehensive MBC Products brand company.

The addressable market for non-durable MBC Products is significantly larger in size globally than that for durable juvenile MBC Products market, providing the Group with significant further growth potential.

Durable vs. Non-Durable MBC Products Retail Sales Value (2016-2021E)



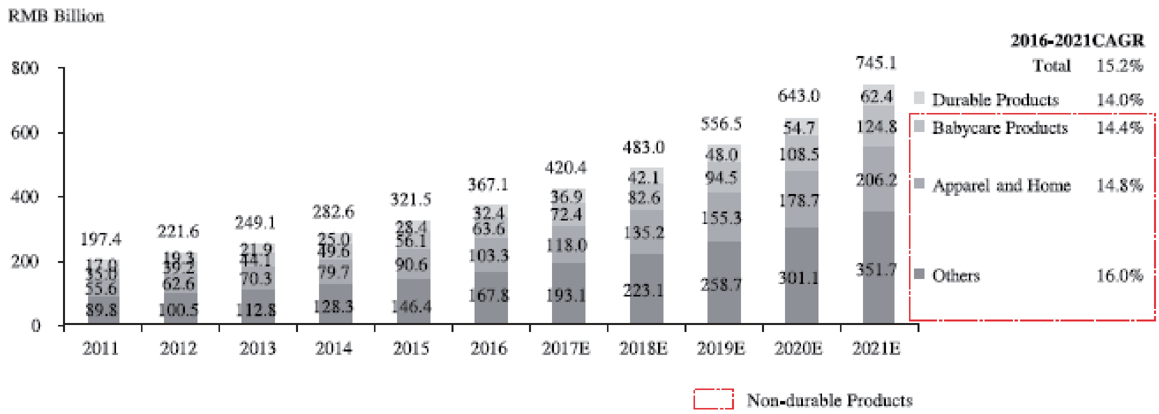
Source: Frost & Sullivan

According to the Frost & Sullivan Report, China is expected to be the largest MBC Products retail market globally by 2021. The Target Group was ranked as a leading brand in China's non-durable MBC market by retail sales value in 2016.

The retail market size for non-durable MBC Products in China is significantly larger than that for durable MBC Products, and according to the Frost & Sullivan Report, it is estimated to grow at a higher CAGR of 15.3% from 2016 to 2021. The key product categories that the Target Group covers, including maternity and baby-care products and apparel and home products, are expected to grow at 14.4% and 14.8% respectively in the next five years and reach a total market size of RMB124.8 billion and RMB206.2 billion by 2021.

The combination of the Group and the Target Group will create a comprehensive and innovative product portfolio and significantly enhance the Group's product development, branding and distribution capabilities, and enable the Group to further consolidate the fragmented MBC Products markets in China. It will also enhance the Group's competitive globally across all customer segments in the MBC Products retail market in the longer term.

Retail Sales Value of MBC Products in China



Source: Frost & Sullivan

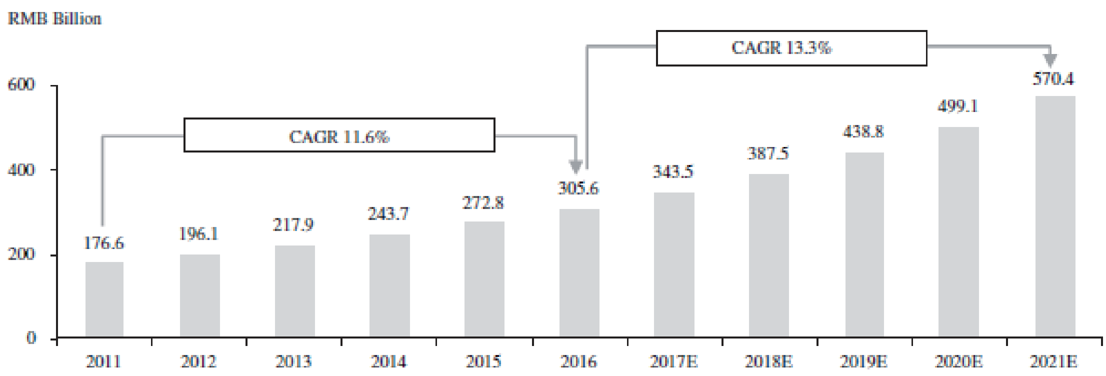
Capture the Growth Opportunity in China's MBC Markets through Direct Access to Omni-channel Retail Platform

China has one of the world's largest and fastest growing MBC Products retail markets. According to the Frost & Sullivan Report, China's retail market for MBC Products has grown rapidly from RMB197.4 billion of retail sales value in 2011 to RMB367.0 billion of retail sales value in 2016, representing a CAGR of 13.2%. With rising disposable income, increasing awareness on product safety and quality and the favorable second-child policy, China's demand for high-quality MBC Products from reputable brands has grown rapidly in recent years. The retail market for MBC Products in China is expected to continue to grow significantly and reach RMB745.1 billion of retail sales value by 2021, representing a CAGR of 15.2% from 2016 to 2021.

Driven by the large and growing internet and mobile internet user base, online sales of MBC Products in China have experienced strong growth in recent years. According to the Frost & Sullivan Report, the online retail market for MBC Products in China reached RMB61.4 billion in retail sales value in 2016, and is expected to continue to grow significantly at a CAGR of 23.3% from 2016 to 2021. Meanwhile, online retail sales as a percentage of total retail sales of MBC Products is expected to increase from 16.7% in 2016 to 23.4% in 2021. Offline retail network that typically include shopping malls, department stores, maternity and children care specialty stores, supermarkets, are gaining importance to satisfy the increasing demand on shopping experience and service of Chinese customers and are expected to remain the primary sales channels in China for MBC Products in the near future. The offline retail market for MBC Products in China reached RMB305.6 billion in 2016, with a projected CAGR of 13.3% from 2016 to 2021.

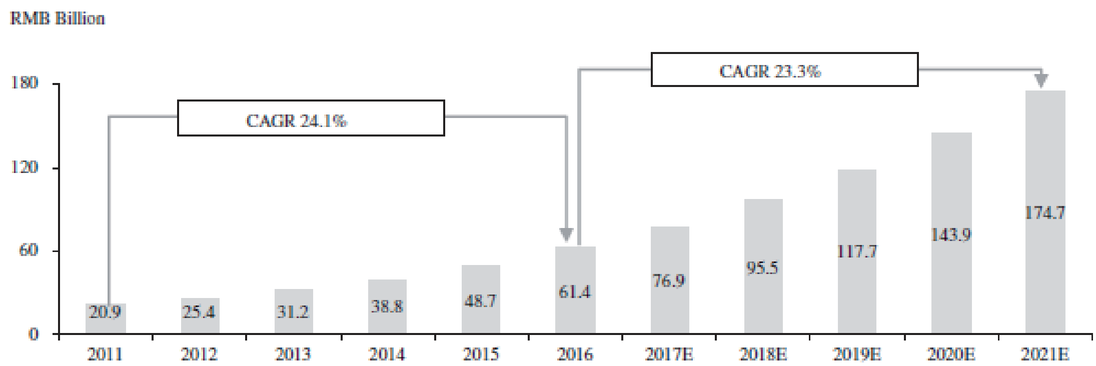
It is critical for the Group to capture the vast growth opportunity in China through obtaining the omni-channel sales platform and enacting direct communication with end customers. The Target Group has a leading omni-channel sales platform for MBC Products. According to Frost & Sullivan, it was ranked as a top 5 MBC specialty retailer in China's MBC market by total retail sales value in 2016 and ranked as a top 3 MBC specialty retailer by online retail sales value in 2016. The control of the omni-channel sales platform will significantly enhance the Group's marketing efficiency and effectiveness, provide value-add service and convenient shopping experience to customers and enhance its competitive edge over other rivals.

Offline Retail Sales Value of MBC Products in China (2011-2021E)



Source: Frost & Sullivan

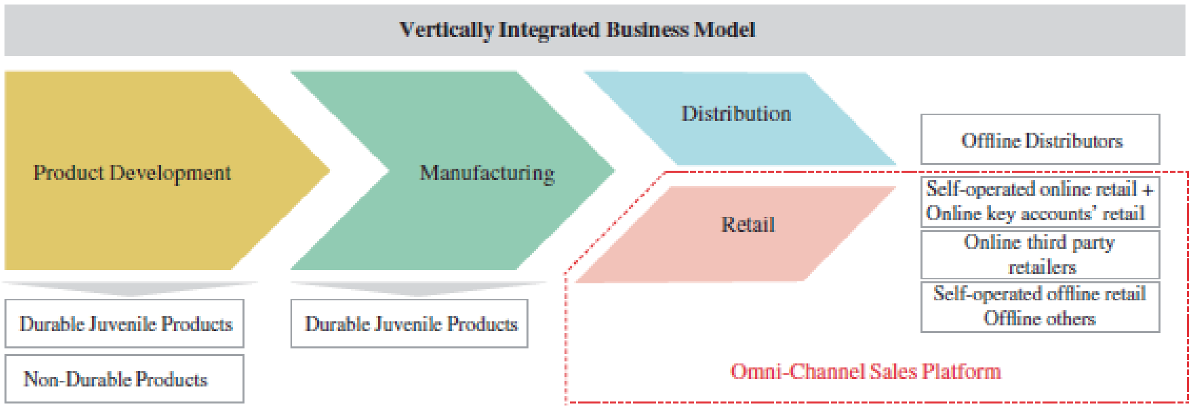
Online Retail Sales Value of MBC Products in China (2011 - 2021E)



Source: Frost & Sullivan

Fully-Integrated Business — Significant Value-add in Downstream Business

The Acquisition will allow the Group to quickly transform from a business that focuses on design, research and development, manufacture, marketing and sale of durable juvenile products into a fully-integrated business that encompasses a leading omni-channel sales platform for comprehensive MBC Products among all online and offline retailers selling MBC Products in China. Following the Acquisition, the Group will leverage the Target Group's comprehensive and highly penetrated online and offline retail network under Self-owned Brands comprising over 11 self-operated online and online key accounts' retail platforms, 183 online third party retailers, 986 self-operated stores located in shopping malls and department stores, covering 150 cities in China as of 30 June 2017.



Active End-Customers and Members — Direct Interactions is Key

The Group appreciates the importance of interacting directly with end-customers. The Target Group places significant emphasis on building relationships with end-customers through tailored and creative marketing strategies and strives to utilize various traditional, new and alternative media channels to reach-out to end-customers effectively. The Target Group has actively participated in online promotional events that are popular among online merchants, such as the "Double Eleven" event held on 11 November of each year in China. The Target Group has also allied with other e-commerce platforms to leverage their online search functions to optimize the hits of keyword search results in connection with the Target Group's Self-owned Brands, products and online stores. The self-operated online retail network of the Target Group had approximately 819,687 active customers for the 6 months ended 30 June 2017 and the Target Group had approximately 1,197,970 and 728,205 active customers on its online retail network for 2016 and 2015 respectively. The data gathered from these interactions will provide the Group with valuable insights in improving end-customers experience, tailoring products for different retail channels, operating more efficiently and creating innovative products and services.

With the combination of the Group and the Target Group, the Group will be able to capture these data and interactions directly with end-customers, and in turn, provide better alignment and control over the end-customers' feedback and timely reactions to such feedbacks. Furthermore, by leveraging such interactions with end-customers, the Group would be able to build a consumer-oriented and brand-driven ecosystem in China.

Elimination of Significant Connected Transactions

Historically, the Group has been selling a significant part of its products through the Target Group because of its extensive distribution and omni-channel sales platform, successful track record and management expertise in China's MBC Products retail market. Before Completion, the Target Group was a connected person of the Company, and these transactions constituted connected transactions of the Company under the Listing Rules. After Completion, the Target will become a wholly owned subsidiary of the Group, and all of such transactions will no longer be connected transactions of the Group.

Such elimination of the connected transactions will provide better visibility and control of the Group's distribution and retail channels in China, enhance efficiency, reduce administrative and logistics costs and enable the Group to capture better profitability as a whole.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, members of the Concert Group are, in aggregate, interested in (i) 298,033,498 Shares, representing approximately 26.61% of the issued share capital of the Company; and (ii) 17,380,000 Share Options, which together with their interest in 298,033,498 Shares, representing approximately 27.74% of the issued share capital of the Company assuming full exercise of the Share Options, the shareholding as set out below:

i PUD holds 259,000,000 Shares, representing approximately 23.13% of the issued share capital of the Company;

ii Mr. Martin Pos, an executive Director, holds 39,033,498 Shares, representing approximately 3.48% of the issued share capital of the Company (Note); and

iii members of the Concert Group are interested in an aggregate of 17,380,000 underlying Shares in respect of the Share Options granted to them, representing approximately 1.55% of the issued share capital of the Company, as set out below:

Member of the Concert Group	**Number of underlying Shares**
Mr. Song	1,390,000
Ms. Fu	1,390,000
Mr. Martin Pos (Note)	2,400,000
Mr. Liu	2,400,000
Mr. Qu	2,400,000
Mr. Wang	2,400,000
Mr. Jan Rezab (Note)	5,000,000
	Total: 17,380,000

(*Note:* Each of Mr. Martin Pos and Mr. Jan Rezab is presumed to be acting in concert with PUD under class (6) presumption until Completion. This class (6) presumption will cease to apply after Completion.)

Upon Completion and completion of the Repurchase and the Distribution, as illustrated in the section headed "SHAREHOLDING STRUCTURE", (i) assuming that none of the Share Options will be exercised, the Concert Group will, in aggregate, be interested in 834,133,498 Shares, representing (a) approximately 74.49% of the issued share capital of the Company as at the Latest Practicable Date; (b) approximately 50.37% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (ii) assuming that none of the Share Options will be exercised, the Concert Group (excluding the presumed concert party Mr. Martin Pos and Mr. Jan Rezab) will, in aggregate, be interested in 795,100,000 Shares, representing approximately 48.01% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

An application has been made by the Whitewash Applicant to the Executive for the Whitewash Waiver pursuant to Note 1 on the dispensations from Rule 26 of the Takeovers Code. In the absence of the Whitewash Waiver, the Whitewash Applicant would be obligated to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Concert Group as a result of the issue of the Consideration Shares, the Repurchase and the Distribution.

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things:

i the approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll;

ii the Concert Group not having acquired any voting rights of the Company in the six months prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Agreement; and

iii the Concert Group not having any acquisition or disposals of voting rights of the Company between the date of the Announcement and the Completion unless with the prior consent of the Executive.

Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and the Independent Shareholders approving the Whitewash Waiver at the EGM on a vote to be taken by way of a poll. The Executive may or may not grant the Whitewash Waiver and the Independent Shareholders may or may not approve the Whitewash Waiver. The Acquisition will not proceed if the Whitewash Waiver is not so granted or approved.

As at the Latest Practicable Date, the Company does not believe that the Acquisition give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules).

Although the Concert Group will hold more than 50% of the issued share capital of the Company upon Completion, the class (6) presumption will cease to apply after Completion and the Concert Group will still be subject to the creeper rule under the Takeovers Code after Completion.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the issued share capital of the Company comprises 1,119,838,000 Shares. Except for 70,130,500 outstanding Share Options, the Company does not have any options, warrants or convertible securities in issue.

As at the Latest Practicable Date none of the members of the Concert Group:

1. is interested in any issued Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company otherwise than as disclosed in the section headed "Whitewash Waiver" in this letter from the Board;

2. holds, controls or has discretion over any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company except as disclosed under the section headed "TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER" and Note 3 to the section headed "SHAREHOLDING STRUCTURE" of this letter from the Board;

3. has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

4. has made any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Vendor which might be material to the Acquisition and/or the Whitewash Waiver, with any other persons;

5. has made any agreement or arrangement which relates to circumstances in which it/he/she may or may not invoke or seek to invoke a precondition or a condition to the Acquisition and/or the Whitewash Waiver, other than the conditions precedent to the Acquisition as set out in this letter from the Board;

6. has received any irrevocable commitment to vote for or against the Acquisition and/or the Whitewash Waiver; or

7. has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company during the six-month period prior to the date of the Announcement except as contemplated under the Agreement.

LISTING RULES IMPLICATIONS

The Acquisition

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 constitutes a major and connected transaction for the Company which requires the approval of the Independent Shareholders by poll at the EGM.

The License

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.

THE INDEPENDENT BOARD COMMITTEE AND THE INDPENDENT FINANCIAL ADVISOR

The Independent Board Committee has been established to advise the Independent Shareholders on the Acquisition and the Whitewash Waiver.

At the Board meeting to consider the Agreement and the transactions contemplated thereunder, each of Mr. Song, Mr. Liu, Mr. Wang and Mr. Qu is considered to be interested in the transactions contemplated under the Agreement and has abstained from voting in respect of the resolution to approve the Agreement and the transactions contemplated thereunder.

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 is 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), who have taken into account the terms of the Agreement, the principal factors and reasons considered by and the opinion of the Independent Financial Adviser as set out in the Letter From the Independent Financial Adviser, considered that (i) the Acquisition is 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, is in the interests of the Company and the Shareholders as a whole; and (iii) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned.

Members of the Independent Board Committee are interested in the underlying Shares as follows:

Mr. Iain Ferguson Bruce	800,000
Mr. Shi Xiaoguang	800,000
Ms. Chiang Yun	800,000
Mr. Ho Kwok Yin, Eric	1,000,000

Except as disclosed above, none of the members of the Independent Board Committee are interested in the Shares or underlying Shares. None of the members of the Independent Board Committee is interested in the Acquisition and/or the Whitewash Waiver.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Acquisition and the Whitewash Waiver. Their letter of advice is set out in the "Letter from the Independent Financial Advisor".

MAINTENANCE OF THE PUBLIC FLOAT

The Company intends to maintain its listing on the Stock Exchange after Completion.

PUD, CAEL, SGIL, ROSL, SIML and the Company will use their respective reasonable endeavors to ensure that the public float of the Company will not be less than 25% (or such lower percentage as may be allowed under the Listing Rules) of its issued share capital immediately after Completion and completion of the Distribution as required under the Listing Rules.

Shareholders and potential investors should note that the Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

INTENTION OF CONTROLLING SHAREHOLDERS

Upon Completion, the Concert Group would become the single largest shareholder and the controlling Shareholder (as defined in the Listing Rules).

The Concert Group intends to continue the existing businesses of the Group and maintain the listing status of the Company on the Stock Exchange following the Completion.

The Concert Group has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group or terminate the continued employment of the employees of the Group.

EGM

The EGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Acquisition, the grant of the specific mandate for the issue of the Consideration Shares and the Whitewash Waiver. Shareholders with a material interest in the Acquisition and/or the Whitewash Waiver shall not vote on the resolution to be proposed at the EGM. Voting at the EGM will be conducted by way of a poll.

At the EGM, (a) the Concert Group (to the extent any of the members owns any Shares as at the date of the EGM), and (b) those who are involved in or interested in the Acquisition and/or the Whitewash Waiver are required to abstain from voting. As at the Latest Practicable Date:

i. PUD holds 259,000,000 Shares, representing approximately 23.13% of the issued share capital of the Company; and

ii. Mr. Martin Pos, an executive Director, holds 39,033,498 Shares, representing approximately 3.48% of the issued share capital of the Company.

Except as disclosed above, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no other Shareholder is required to abstain from voting in respect of the resolution to consider and approve the Acquisition and the Whitewash Waiver at the EGM.

RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee of this circular.

The Directors (excluding Mr. Song, Mr. Liu, Mr. Wang and Mr. Qu and excluding members of the Independent Board Committee, whose view is set out separately in the "Letter form the Independent Board Committee"), consider that (i) the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, they recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed to approve the Acquisition and the Whitewash Waiver.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Goodbaby International Holdings Limited
SONG Zhenghuan
Chairman

Goodbaby International Holdings Limited
好孩子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1086)

4 September 2017

To the Independent Shareholders

(1) MAJOR AND CONNECTED TRANSACTION
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(3) APPLICATION FOR WHITEWASH WAIVER

Dear Sir or Madam,

We refer to the circular of the Company dated 4 September 2017 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether (i) the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Independent Financial Advisor.

Having considered the terms of the Agreement and the principal factors and reasons considered by and the opinion of the Independent Financial Advisor as set out in its letter of advice, we consider that the Acquisition is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We consider the entering into of the Agreement, while not in the ordinary and usual course of business of the Company, is in the interests of the Company and its Shareholders as a whole. We also consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders to vote in favour of the resolution to approve the Acquisition and the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Mr. Iain Ferguson BRUCE	**Ms. CHIANG Yun**	**Mr. SHI Xiaoguang**	**Mr. JIN Peng**	**Mr. HO Kwok Yin, Eric**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*	*Non-executive Director*

The following is the full text of a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the Whitewash Waiver, which has been prepared for the purpose of inclusion in the Circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

4 September 2017

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
AND
(3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the Whitewash Waiver, details of which are contained in the letter from the Board in the circular issued by the Company to the Shareholders dated 4 September 2017 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 24 July 2017 (after trading hours), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire the Sale Share, being the entire issued capital of the Target, from the Vendor at a consideration of US$360.0 million (the "**Consideration**"), subject to adjustment. The Consideration will be satisfied as to approximately US$120.5 million (equivalent to approximately HK$941.2 million) by the payment of the Cash Consideration and as to the balance by the allotment and issue of the Consideration Shares at the Issue Price.

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 the percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major and connected transaction for the Company which requires the approval of the Independent Shareholders by poll at the EGM.

As at the Latest Practicable Date, members of the Concert Group were, in aggregate, interested in 298,033,498 Shares, representing approximately 26.6% of the issued share capital of the Company. Upon completion of the Acquisition, the Repurchase and the Distribution, and assuming that none of the Share Options will be exercised and no new Shares will be issued, the Concert Group will, in aggregate, be interested in 834,133,498 Shares, representing approximately 50.4% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Pursuant to the Takeovers Code, the Whitewash Applicant would, in the absence of the Whitewash Waiver, be obligated to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Concert Group as a result of the issue of the Consideration Shares, the Repurchase and the Distribution. The Whitewash Applicant has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on the dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver would be subject to, among other things, the approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll.

The Independent Board Committee, comprising all the independent non-executive Directors and the non-executive Director, namely Mr. Iain Ferguson Bruce, Ms. Chiang Yun, Mr. Shi Xiaoguang, Mr. Jin Peng and Mr. Ho Kwok Yin, Eric, has been established to advise the Independent Shareholders on the Acquisition and the Whitewash Waiver. We, Somerley Capital Limited, have been appointed by the Company as the Independent Financial Adviser in this regard.

We are not associated or connected with the Company, the Vendor or their respective substantial shareholders, associates or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Acquisition and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendor, their respective substantial shareholders or associates or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed published information on the Company, including but not limited to, annual reports of the Company for the years ended 31 December 2015 and 2016, interim results announcement of the Company for the six months ended 30 June 2017, and the information contained in the Circular. We have discussed with the Directors their statements set out in Appendix I to the Circular that, save as disclosed in that Appendix, there has been no material change in the financial or trading position or outlook of the Group since the date of the last published audited consolidated financial statements of the Group up to and including the Latest Practicable Date. We have also reviewed the trading performance of the Shares on the Stock Exchange, and conducted site visits to selected retail outlets of the Target Group's business. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Vendor, the Target Group, or their respective substantial shareholders, associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and will continue to be true until the Latest Practicable Date. Shareholders will be notified of any material changes as soon as practicable, if any.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Acquisition and the Whitewash Waiver, we have taken into account the following principal factors and reasons:

1. Background information on the Group

1.1 Principal business activities

The Group is principally engaged in the design, research and development, manufacture, marketing and sale of durable juvenile products, including strollers, children's car safety seats, cribs, bicycles and tricycles, and other products primarily under the "Cybex", "gb", "Evenflo" and other various brands. The Shares have been listed on the Stock Exchange since 24 November 2010.

Founded in 1989, the Group initially focused on the domestic market for strollers in the PRC. It expanded its operations to North America and Europe in the 1990s and the early 2000s respectively, and began to manufacture durable MBC Products on an original product manufacturer ("**OPM**") basis for other companies. In January 2014, the Group acquired Columbus Holdings GmbH, which designs and sells car seats, baby carriers and strollers, and owns "Cybex", a car seats brand. As a result, the Group's brand portfolio was strengthened. This was followed by the acquisition of WP Evenflo Group Holdings, Inc. in July 2014, which focuses on juvenile durable products primarily in North America, under the "Evenflo" brand, which complements the Group's offerings in the mid-end to value brand portfolio. The above two acquisitions (the "**Brand Acquisitions**") have contributed to the Group's transition from an OPM to a brand driven business model. Sales of products under the Group's own brands made up more than 75% of the Group's revenue in 2016.

For the PRC market, the Group principally designs, manufactures and sells durable juvenile MBC Products under its self-owned brands, including "gb" and "Happy Dino". The Group sells its products across the PRC through distribution networks and retailers, including the Target Group, which cover department stores, supermarkets, and maternity and childcare specialty stores, as well as online sales channels. In overseas markets, the Group has established strategic partnerships with local distributors and brand owners, and sells its products under both the self-owned brands of the Group and third-party brands on an OPM basis. It sells its self-owned brands such as "Cybex" and "Evenflo" through distributors across its key markets in Europe, North America, and the PRC.

The Group sells a significant part of its products through the Target Group as an authorised non-exclusive distributor because of the Target Group's successful track record and management expertise in China's MBC Products retail market. In 2016, the Target Group was the largest customer of the Group in the China market, and accounted for approximately 67.4% of the Group's sales in China. Overall, sales to the Target Group accounted for approximately 13.3%, 12.5% and 12.5% of the Group's overall sales in 2014, 2015 and 2016 respectively. As the Target is a connected person of the Company, this ongoing supply relationship constitutes a continuing connected transaction of the Company under the Listing Rules, and one which is of considerable size.

1.2 Financial performance and financial position of the Group

Financial performance

The following table sets out a summary of the consolidated income statements of the Group for the three years ended 31 December 2014, 2015 and 2016, and for the six months ended 30 June 2016 and 2017, as extracted from Appendix I to the Circular:

	For the six months ended 30 June		**For the year ended 31 December**		
	2017	**2016**	**2016**	**2015**	**2014**
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	3,295,589	3,214,894	6,238,179	6,951,131	6,115,592
Gross profit	1,195,055	1,074,488	2,111,464	2,050,212	1,527,535
Gross profit margin	36.3%	33.4%	33.8%	29.5%	25.0%
Profit for the year	125,923	110,108	212,240	202,672	57,724
Net profit margin	3.8%	3.4%	3.4%	2.9%	0.9%
Profit attributable to owners of the Group	**124,704**	**107,140**	**207,390**	**197,434**	**57,475**
Earnings per share (basic and diluted) (HK$)	**0.11**	**0.10**	**0.19**	**0.18**	**0.05**

Revenue of the Group during the above periods was generated from three operating segments, being (i) strollers and accessories, (ii) car seats and accessories, and (iii) other durable juvenile products. Revenue increased by approximately 13.7% from approximately HK$6,115.6 million in 2014 to approximately HK$6,951.1 million in 2015, primarily driven by the revenue contribution from the "Cybex" and "Evenflo" brands following the Brand Acquisitions. In 2016, the Group implemented its new branding and channelling strategy in China and rationalised its business lines in the US in order to increase profitability, which together caused a decrease in total revenue of approximately 10.3% as compared to the previous year. The China business performed better in the second half of 2016, with a growth rate of approximately 2.9% as opposed to a decline of approximately 24.7% in the first half of 2016.

For the first half of 2017, the Group recorded revenue of approximately HK$3,295.6 million, representing an increase of approximately 2.5% compared with the same period last year, mainly attributable to an increase in revenue from the Group's own brands, partly offset by a planned decrease in revenue from its blue-chip customers.

The Group's gross profit margin has been improving gradually from approximately 25.0% in 2014 to approximately 33.8% in 2016, due to the Group's business model evolving from an OPM-driven business to a higher-margin, brand-driven business, and the phasing out of certain low profitability business lines. The gross profit margin has improved by approximately 2.9 percentage points to approximately 36.3% in the first half of 2017, mainly due to the improvement of the Group's operating efficiency and a stronger contribution by the Group's strategic brands which have a relatively higher gross profit margin.

The Group's net profit attributable to its owners more than tripled to approximately HK$197.4 million in 2015, due to an improvement in revenue and gross profit margins, as discussed above. In 2016, the Group recorded a drop in profit before tax, partly due to one-off costs relating to integration and discontinuation of non-strategic operations, which led to an increase in administrative expenses. Net profit attributable to owners of the Group remained relatively flat, mainly due to the recognition of a tax credit arising from its "Evenflo" brand during the period. The Group recorded a profit attributable to its owners of approximately HK$124.7 million in the first half of 2017, representing an increase of approximately 16.4% compared with the same period in 2016, due to the increase in revenue and the improvement gross profit, as discussed above.

Financial position

The following table sets out a summary of the consolidated statement of financial position of the Group as at 31 December 2014, 2015 and 2016, and as at 30 June 2017, as extracted from the Appendix I to the Circular:

	As at 30 June	**As at 31 December**		
	2017	**2016**	**2015**	**2014**
	(unaudited)	*(audited)*	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	2,614,377	2,519,156	2,487,825	2,557,204
Current assets	3,584,999	2,999,582	3,433,726	3,964,860
Current liabilities	2,584,155	1,855,256	2,202,865	3,107,370
Non-current liabilities	967,286	1,185,320	1,310,584	1,087,034
Net assets	**2,647,935**	**2,478,162**	**2,408,102**	**2,327,660**
Equity attributable to owners of the Company	2,609,577	2,440,280	2,365,258	2,296,904
Non-controlling interests	38,358	37,882	42,844	30,756
Total equity	**2,647,935**	**2,478,162**	**2,408,102**	**2,327,660**
NAV per Share (HK$)	2.33	2.19	2.13	2.09

As at 30 June 2017, the major assets of the Group were (i) inventory of approximately HK$1,255.5 million, (ii) property, plant and equipment of approximately HK$883.5 million, which included plant and machinery, buildings and land, and furniture and fixtures, principally representing the manufacturing facilities of the Group located in China, America and Mexico, (iii) goodwill of approximately HK$834.1 million, which mainly comprised goodwill generated as a result of the Brand Acquisitions, (iv) trade and notes receivables of approximately HK$737.8 million, (v) cash and cash equivalents of approximately HK$728.6 million, and (vi) other intangible assets such as trademarks and patents, of approximately HK$689.4 million.

As at 30 June 2017, the major liabilities of the Group comprised interest-bearing bank borrowings and other borrowings of, in aggregate, approximately HK$1,456.2 million, and trade and notes payables of approximately HK$1,167.3 million. The Group's gearing ratio, calculated as net debt, which is the sum of trade and notes payables, other payables, advances from customers and accruals and interest-bearing bank loans and other borrowings less cash and cash equivalents, divided by the sum of equity attributable to owners of the Company and net debt less hedging reserve, amounted to approximately 48.6% as at 30 June 2017.

2. Reasons for and benefits of the Acquisition

The key reasons for and benefits of the Acquisition are set out in the letter from the Board in the Circular and summarised below:

- The combination of the Group and the Target Group represents an opportunity to further broaden the Group's product portfolio from its existing durable juvenile products into MBC Products with a larger addressable market, higher multi-category growth and better profitability potential, to capture the growth in China's MBC Product market, and to leverage interactions with end-customers to build a consumer-oriented and brand-driven ecosystem in China for the Group.

- Upon Completion, the consolidation of the Group and the Target Group will create a fully-integrated global MBC Products brand. Complementary product lines and core competencies between the Group and the Target Group are expected to lead to the Group's further transformation into a global MBC Products brand company.

- The Acquisition will allow the Group to transform from a business that focuses on design, research and development, manufacture, marketing and sale of durable juvenile products into a fully-integrated business that encompasses an omni-channel sales platform for MBC Products.

- After Completion, the Target will become a wholly-owned subsidiary of the Group, and transactions which were previously connected transactions of the Company under the Listing Rules will be captured within the Group and no longer be connected transactions. As confirmed by management of the Group, other than the License which is a fully exempted continuing connected transaction, there will be no continuing connected transactions under the Listing Rules arising as a result of the Acquisition.

We consider the business of the Target Group to be complementary to that of the Group, and that the Acquisition offers a sensible extension of the Group's business. In arriving at our view we have considered the above facts, in particular: (i) the Group has been changing its business model from being an OPM driven business to a fully integrated MBC Products provider, with a global distribution network. Acquiring the Target Group would also allow the Group to broaden its product portfolio to include non-durable MBC Products and expand downstream into both online and offline retail outlets; (ii) as set out in the section headed "Financial performance and position of the Target Group", the Frost & Sullivan Report highlights the MBC Products retail market in the PRC as being one of the largest and fastest growing of such markets globally. With the Acquisition, the Group would be able to tap into this burgeoning market; (iii) through the Target Group's access to end-customers through both online and offline sales channels, the Group would further develop its access to end-customers, thereby expanding its consumer-oriented and brand-driven product offering; and (iv) following Completion, previously connected transactions of substantial size will be eliminated, which we consider to be beneficial to the Company from a corporate governance point of view.

3. Principal terms of the Agreement

Set out below are summaries of the principal terms of the Agreement. Independent Shareholders are advised to read in full further details of the Agreement as set out in the letter from the Board in the Circular.

3.1 100% acquisition

The Purchaser has conditionally agreed to acquire the Sale Share, representing the entire issued capital of the Target at Completion, from the Vendor for a consideration of US$360.0 million (approximately HK$2,812.2 million), subject to adjustment.

3.2 Basis of Consideration

As set out in the letter from the Board in the Circular, the Consideration has been determined after arm's length negotiations between the parties with reference to the prevailing market conditions, the historical operating and financial performance and growth prospects of the Target Group, and benchmarking price-earnings ratios of comparable companies. It will be satisfied at Completion as to approximately US$120.5 million (approximately HK$941.2 million) by the payment of the Cash Consideration and as to the balance, being approximately US$239.5 million (approximately HK$1,871.0 million), by the allotment and issue of the Consideration Shares, being 536,100,000 new Shares, at the Issue Price credited as fully paid.

The Consideration is subject to upward or downward adjustments, with an upward adjustment limit of US$36.0 million. Such adjustments are as follows:

(i) Debt-free and cash-free adjustment — where the amount of the external debt and external debt equivalent (including (i) bank borrowing; (ii) tax payable; and (iii) deferred tax) of the Target Group as at Completion is:

(a) higher than the amount of the cash and cash equivalent and amount due from related parties of the Target Group (which is to be fully settled as at Completion) as at Completion, the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash; or

(b) lower than the amount of the cash and cash equivalent and amount due from related parties of the Target Group as at Completion, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser in cash, and

(ii) working capital adjustment — where the Actual Working Capital is:

(a) lower than the Reference Working Capital, the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash; or

(b) higher than the Reference Working Capital, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser in cash.

Reference Working Capital as described above amounts to RMB-12,768,000, based on the working capital requirement of the Target Group according to its audited financial statements as of 30 April 2017. The adjustment to the Consideration as described above is to be settled by the Vendor or the Purchaser (as the case may be) within 30 business days (as defined in the Agreement) after the date of finalising the Completion Statement.

The Cash Consideration will be funded from bank loans and internal resources.

As set out in note 4 to the unaudited pro forma financial information of the enlarged Group in the Appendix IIC to the Circular, based on the financial information of the Target Group as at 30 June 2017, the estimated adjusted consideration for the Acquisition (the "**Estimated Consideration**") would be approximately HK$2,954.1 million, representing an increase of approximately 5.0% as compared to the initial Consideration. Please note that the Estimated Consideration is calculated with reference to the financial position of the Target Group as at 30 June 2017. The actual Consideration payable by the Group upon Completion would be calculated based on the financial position of the Target Group as at Completion with reference to the adjustment mechanism set out above, and therefore may be different from the above Estimated Consideration.

The Consideration Shares

The 536.1 million Consideration Shares represent approximately 47.9% and 32.4% of the total issued share capital of the Company as at the Latest Practicable Date and immediately upon Completion, respectively. They will be allotted and issued at Completion as follows:

(i) the Consideration Shares will be held by the shareholders of the Vendor upon completion of the Repurchase and the Distribution; and

(ii) 80,578,109 of the Consideration Shares (the "**Charged Consideration Shares**"), representing approximately 10% of the Consideration, will be charged to the Group as security to cover any claims against the Vendor which are not otherwise settled pursuant to the terms of the Agreement, including any amount payable under the adjustments as set out above. If there are no outstanding claims against the Vendor, the Charged Consideration Shares shall be returned to the shareholders of the Vendor on the 540th calendar day following the Completion Date.

The Consideration Shares will rank pari passu in all respects with the Shares in issue at the date of issue including in respect of all dividends and distributions declared, made or paid on or after the date of issue. Further information on the effect of the issuance of the Consideration Shares on the shareholding structure of the Company is set out in the section headed "The Distribution and effect of the Acquisition on the shareholding structure of the Company".

The Company has considered other methods of equity financing. The issue price of HK$3.49 per Consideration Share is close to the average closing price of the Shares before the Announcement. In contrast, fund raising exercises by way of issue of new shares to independent third parties or to existing shareholders on a pro rata basis (i.e. rights issue or open offer) usually require a discount to the prevailing market prices of the shares. In choosing the source of financing to satisfy the Consideration, the Directors considered (i) funding requirements for the Group's further business development and expansion; (ii) the Group's dividend policy; (iii) the Group's general working capital requirements; (iv) the desire of the Group to maintain leverage at similar level post the Acquisition to control effective debt costs; (v) potential disadvantages of other equity financing alternatives as discussed above; and (vi) the willingness of the Vendor to accept the Consideration Shares issued at the Issue Price as stated in the letter from the Board in the Circular, the current proposed financing structure proposal was arrived at after due and careful consideration of the various alternatives by the Directors, who consider that the proposed issue of the Consideration Shares and the payment of the Cash Consideration are suitable payment mechanisms for the Acquisition, and that the dilution effects on the shareholdings in the Company by the existing public Shareholders are acceptable.

3.3 Conditions precedent

Details of the conditions precedent to Completion are set out in the section headed "Conditions Precedent" in the letter from the Board in the Circular. The major ones are as follows:

(i) the Executive granting the Whitewash Waiver and the Whitewash Waiver not being revoked or withdrawn;

(ii) the approval of the Independent Shareholders in the EGM by way of a poll in respect of (a) the entering into of the Agreement and the performance of all other transactions contemplated under the Agreement; (b) the Specific Mandate in relation to the allotment and issue of the Consideration Shares; and (c) the Whitewash Waiver, each in accordance and in compliance with the Listing Rules and the Takeovers Code;

(iii) the Listing Committee having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;

(iv) the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC (a) approving the transactions contemplated under the Agreement unconditionally or on conditions which do not have any material effect on the business of the Purchaser and/or its subsidiaries and/or the Target Group, or (b) having been deemed under the Anti-Monopoly Law of the PRC to have approved the transactions contemplated under the Agreement upon the expiry of the statutory time periods for review by the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC;

(v) the deed of acknowledgement and undertaking having been executed by (among others) the relevant Vendor's controlled entities in the form acceptable to the Purchaser and the Vendor pursuant to which each such entity controlled by Mr. Song and Ms. Fu undertakes to cease to use certain trade names if Mr. Song and Ms. Fu cease to control such entity;

(vi) the Deed of Non-Competition having been executed by Mr. Song and Ms. Fu in favour of the Purchaser; and

(vii) the deeds of assignment or transfer for the assignment or transfer (as the case may be) of the Relevant IPR having been executed by the Vendor (or other entities controlled by Mr. Song and/or Ms. Fu) to the Purchaser or other members of the Target Group, and the License in the form acceptable to the Purchaser and the Vendor having been executed by the relevant parties thereto.

The Purchaser or the Vendor, may at any time, waive in whole or in part and conditionally or unconditionally any of the conditions precedent set out above (other than the conditions precedent (i), (ii), (iii) and (iv) which cannot be waived), by notice in writing to the other party.

If the conditions precedent set out above are not satisfied or waived (except the conditions precedent which cannot be waived) on or before the Long-Stop Date, being 24 January 2018 (or such other date as may be agreed between the Purchaser and the Vendor in writing), either the Purchaser or the Vendor may (as the case may be), in its sole discretion, terminate the Agreement as long as the terminating party has complied with its obligations in terms of using its reasonable efforts to fulfill the conditions precedent. As at the Latest Practicable Date, none of the conditions precedent set out above have been satisfied or waived (if applicable).

3.4 Deed of Non-Competition

Pursuant to the Deed of Non-Competition, with effect from Completion, each of Mr. Song and Ms. Fu shall undertake to the Purchaser that he/she will not, and will procure his/her close associates will not, directly or indirectly be involved in or undertake any business (other than the business of the Purchaser and its subsidiaries (being the Business)) that directly or indirectly competes, or may compete, with the Business, or hold shares or interest in any companies or business that compete directly or indirectly with the Business from time to time save and except for: (i) the interest they hold in PUD; (ii) the interest in the Retained Business; (iii) less than 5% interest in any company the shares of which are listed on the Stock Exchange or any other stock exchange which is engaged in, involved in or undertakes any business that is or may be in competition with the Business without controlling 10% or more of the composition of the board of directors of such company; and (iv) interest in any business which has been referred to the Purchaser by Mr. Song and/or Ms. Fu and/or any of their close associates and the Purchaser has failed to respond to or declined the opportunity to pursue such business.

3.5 Completion

Completion will take place on the fifth business day from the date on which the last of the conditions precedent (other than the conditions precedent which by their terms are to be satisfied at Completion) is satisfied or waived in accordance with the Agreement (or such other date as may be notified by the Purchaser to the Vendor in writing).

3.6 Transfer of the Relevant IPR

As set out in the letter from the Board, it will normally take approximately 18 to 24 months before the regulatory approval process is completed such that the Purchaser becomes the registered owner of the Relevant IPR. As a transitional arrangement, the License will be entered into between the Purchaser and the Vendor at Completion, pursuant to which the Vendor would allow the Purchaser or any of its subsidiaries to use the Relevant IPR on a royalty-free, non-exclusive (to the extent that the Relevant IPR may only be used by the one or more entities controlled by Mr. Song and/or Ms. Fu) and non-transferable basis. The licensee shall have the right to request the licensor to defend on its behalf in the event of any infringement by third parties. Any damages received shall belong to the licensee.

The License allows the Group to use the Relevant IPR on a royalty free basis in the period from Completion to the date on which the Purchaser (or its subsidiary) shall become the registered owner of the Relevant IPR. We note that the Group will not incur any costs pursuant to the License.

4. Information on the Target Group

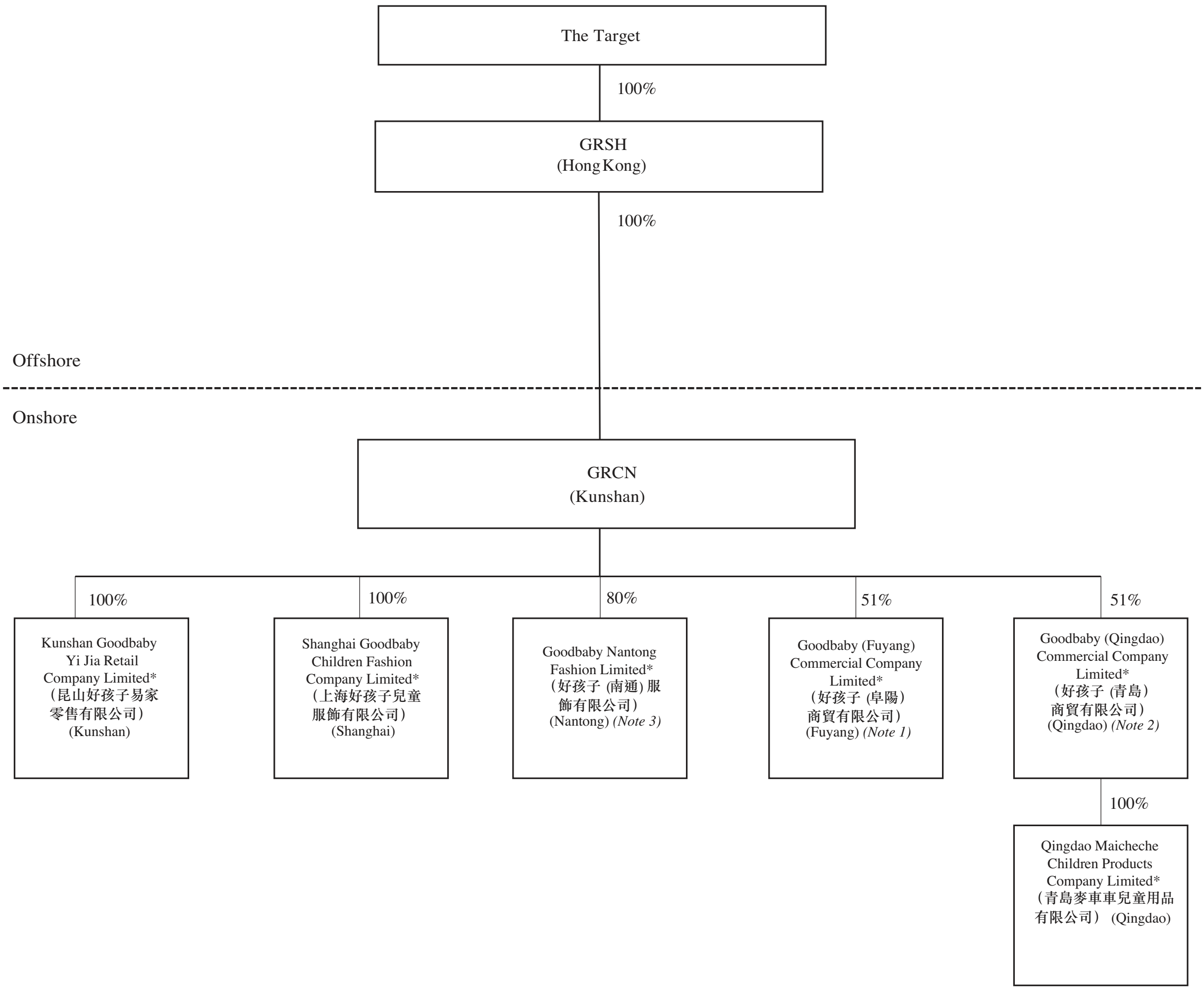
4.1 Background and businesses of the Target Group

Background

The Target Group is one of the largest specialty retailers of MBC Products in the PRC, with a nationwide store network and a strong online retail presence. The businesses of the Target Group have been operated by the Vendor and its subsidiaries (the "**Vendor Group**"), which were originally part of the Group before its listing in 2010, with an initial focus on durable juvenile products. The Vendor Group subsequently commenced offline retail sales of products under the Goodbaby Brands.

In 2010, in preparation for the listing of the Group, the retail and distribution of MBC Products (including durable juvenile and non-durable MBC Products) and research and development of non-durable MBC Products, were carved out from the business of the Group so that the Group would focus on durable juvenile products involving the manufacturing, research and development of such products.

In early 2016 the Vendor published a prospectus in relation to the offering of shares in the Vendor for subscription, which did not proceed in light of deteriorating capital market conditions and excessive market volatility at the time. What followed was an internal restructuring of the Vendor, pursuant to which the business of the Target Group was transferred to and consolidated in the Target Group. Set out below is a chart showing the corporate structure of the Target Group as at the Latest Practicable Date:



Notes:

1. *The remaining 49.0% was held by Anhui Guoguo Children Products Sales Company Limited* (安徽果果兒童用品銷售有限公司) an Independent Third Party*

2. *The remaining 49% was held by Mr. Zhang Benjin, an Independent Third Party*

3. *The remaining 20% was held by Ms. Li Xiaofeng, an Independent Third Party*

Following Completion, the Vendor Group will continue to be engaged in the Retained Business. According to our discussion with the management of the Group, it is the intention of the Group to focus on its own brand names, and as such the above remaining business of the Vendor Group would not be acquired pursuant to the Agreement.

Business

The Target Group is primarily engaged in (i) the retail and distribution of MBC Products through its omni-channel sales platform, which includes durable juvenile MBC Product brands owned by the Group, as well as non-durable MBC product brands owned by the Target Group, and (ii) the product design, brand management and research and development of non-durable MBC Products (primarily babies and children apparel and maternity and babycare products). The Target Group is an authorised non-exclusive distributor of the durable juvenile products manufactured by the Group in the PRC. Unlike the Group, the Target Group principally focuses on online and offline specialty retailing and product development and distribution of non-durable MBC products. The production of its babies and children apparel and maternity and babycare products has been outsourced to selected OEM contractors in the PRC.

The Target Group operates both online and offline sales channels. As at 30 June 2017, the offline sales network comprised 986 self-operated stores mainly located within department stores, shopping malls and at street level, 406 offline distributors, and 54 national or regional supermarket and hypermarket operators for offline whole-sales. The online sales network comprised self-operated online retail sales channels, including its own web-based sales platform, haohaizi.com, and six flagship stores on third-party online platforms such as Tmall and Dangdang in the PRC, sales arrangements with four online key accounts such as JD, and 183 authorised third-party online retailers. As set out in the section headed "Financial performance and position of the Target Group", the Target Group has an "asset-light" business model.

4.2 Financial performance and position of the Target Group

Financial performance

The following table sets out a summary of the combined statements of profit or loss of the Target Group for the three years ended 31 December 2014, 2015 and 2016, and for the six months ended 30 June 2016 and 2017, as extracted from the accountants' report of the Target Group set out in Appendix IIA to the Circular:

	For the six months ended 30 June		**For the year ended 31 December**		
	2017	**2016**	**2016**	**2015**	**2014**
	(audited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,205,911**	**920,669**	**1,937,395**	**1,854,631**	**1,678,738**
Cost of sales	(687,590)	(527,565)	(1,121,391)	(1,064,686)	(966,981)
Gross profit	**518,321**	**393,104**	**816,004**	**789,945**	**711,757**
Gross profit margin	43.0%	42.7%	42.1%	42.6%	42.4%
Other income and gains	3,247	2,125	7,432	9,599	10,624
Selling and distribution expenses	(343,622)	(293,888)	(593,030)	(579,167)	(540,821)
Administrative expenses	(31,851)	(45,536)	(75,917)	(69,040)	(52,305)
Other expenses	(1,408)	(1,604)	(4,585)	(3,883)	(5,229)
Finance costs	—	(9,213)	(13,646)	(11,614)	(14,931)
Profit before tax	144,687	44,988	136,258	135,840	109,095
Income tax expense	(37,177)	(12,096)	(35,459)	(34,246)	(28,410)
Profit for the year	**107,510**	**32,892**	**100,799**	**101,594**	**80,685**
Net profit margin	8.9%	3.6%	5.2%	5.5%	4.8%
EBIT *(Note)*	144,687	54,201	149,904	147,454	124,026
Profit attributable to owners of the Target Group	**106,663**	**32,719**	**100,624**	**100,419**	**80,390**

Note: Profit before tax, finance costs, other income and gains, other expenses and corporate and other unallocated expenses

Revenue

The revenue of the Target Group derives from the sale of (i) durable juvenile products, including strollers, children's car safety seats, cribs, bicycles, tricycles and other durable juvenile products, (ii) maternity and baby-care products, including nursing, feeding and personal care products, and (iii) apparel products, including apparel for infants, toddlers and children as well as home textile products. The table below sets out details of the Group's segment revenues:

	For the six months ended 30 June		For the year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
	(audited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
Durable juvenile products	630,802	508,729	1,057,786	1,086,607	970,474
Maternity and baby-care products	376,446	272,423	578,670	486,613	412,136
Apparel products	198,663	139,517	300,939	281,411	296,128
	1,205,911	**920,669**	**1,937,395**	**1,854,631**	**1,678,738**

The revenue increased by approximately 10.5% in 2015 to approximately HK$1,854.6 million, mainly due to the growth in the sale of durable juvenile products and maternity and baby-care products. It further increased by approximately 4.5% in 2016 to approximately RMB1,937.4 million, principally driven by an increase in the sales of maternity and baby-care products, as shown above, as a result of, among other things, product portfolio diversification, customer-oriented marketing and services as well as expansion of online authorised retailers.

For the six months ended 30 June 2017, the Target Group recorded revenue of approximately RMB1,205.9 million, representing a significant increase of approximately 31.0% as compared to the corresponding period last year, mainly due to introduction of new product lines and development of online-to-offline channels since 2016. As set out in the letter from the Board in the Circular, the Target Group has worked together with a German design team to develop special molds of functional milk bottles, launched new personal products for newborns in 2016, and broadened its product offering in the babies and children apparel segment.

Cost of sales

Cost of sales mainly comprised of the costs of MBC Products sourced from the Group and OEM contractors. The Target Group recorded purchases of MBC Products from the Group of approximately RMB644.1 million, RMB700.5 million, RMB666.3 million and RMB431.7 million in 2014, 2015, 2016 and the first half of 2017 respectively, over half its cost of sales in the respective years. This highlights the complementary nature of the businesses of the Target Group and the Group. As confirmed by management of the Group, such historical transactions between the Group and the Target

Group were on terms similar to those offered by the Group to third party distributors and retailers in the PRC, including those terms which relate to pricing. We note that the auditors and the independent non-executive directors of the Company confirmed in the past three years that these historical transactions were on normal commercial terms or better.

Gross profit margins

Gross profit margins of the Target Group remained stable at approximately 42% to 43% throughout the above periods. The table below sets out detailed gross profit margin percentages by segment:

	For the six months ended 30 June		**For the year ended 31 December**		
	2017	**2016**	**2016**	**2015**	**2014**
Gross profit margin					
Durable juvenile products	33.0%	33.1%	32.5%	32.4%	32.4%
Maternity and baby-care products	50.9%	50.9%	50.5%	51.5%	50.5%
Apparel products	59.6%	61.7%	59.9%	66.7%	64.0%
Overall	**43.0%**	**42.7%**	**42.1%**	**42.6%**	**42.4%**

As advised by management of the Group, the gross profit margin for maternity and baby-care products and apparel products, which are non-durable, has historically been higher than for durable juvenile products, principally due to the Target Group capturing profitability along a wider range of the value chain for the non-durable product segment. For the durable product range the Target Group only acts as a retailer and distributor.

Selling and distribution expenses

As an operator in the downstream retail market, a substantial part of the Target Group's operating expenses were selling and distribution expenses. These mainly comprised remuneration payments to the sales teams at self-operated stores and concession fees payments to key accounts such as department stores. For each of the above periods, the selling and distribution expenses represented approximately one-third of the Target Group's total revenue.

EBIT

	For the six months ended 30 June		For the year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
EBIT					
Durable juvenile products	26,237	10,167	25,957	24,486	26,885
Maternity and baby-care products	106,170	67,263	150,052	126,840	103,183
Apparel products	27,556	5,241	11,912	30,941	37,117
Aggregated segment EBIT	159,963	82,671	187,921	182,267	167,185
Overhead	(15,276)	(28,470)	(38,017)	(34,813)	(43,159)
Total EBIT	**144,687**	**54,201**	**149,904**	**147,454**	**124,026**

The Target Group's EBIT increased from approximately HK$124.0 million in 2014 to approximately HK$149.9 million in 2016, which was attributable to an increase in the sales of maternity and baby-care products and a stable gross profit margin of maternity and baby-care products. For the first half of 2017, EBIT of the Target Group increased by approximately 166.9% as compared to the same period in 2016, as a result of the improvement in overall sales as discussed above.

Net profit

Net profit of the Target Group exhibited significant growth from approximately RMB80.7 million in 2014 to approximately RMB101.6 million in 2015, and subsequently remained flat at approximately RMB100.8 million in 2016. As advised by management of the Group, a substantial part of the Target Group's net profit was generated in the second half of 2016, primarily due to a wider variety of products offered by the Target Group since late 2015, the positive effect of which started to be felt in the second half of 2016. Net profit margins of the Target Group were approximately 4.8%, 5.5% and 5.2% in 2014, 2015 and 2016 respectively.

For the six months ended 30 June 2017, the net profit of the Target Group increased by approximately 3 times as compared with the corresponding period in 2016, from approximately RMB32.9 million to approximately RMB107.5 million, largely due to an improvement in operating efficiencies and a greater revenue contribution from higher margin maternity and baby-care products sales to distributors. The Target Group recorded a net profit of approximately RMB175.4 million (or approximately HK$203.3 million) ("**Target Group TTM Net Profit**") in the twelve month period ended 30 June 2017 (on the basis of the sum of the profit for the year ended 31 December 2016 and the six months ended 30 June 2017, and deducting the profit for the six months ended 30 June 2016), which reflects the latest performance of the Target Group.

Financial position

The following table sets out the combined statement of financial position of the Target Group as at 31 December 2014, 2015 and 2016 and as at 30 June 2017, as extracted from the Accountants' Report set out in Appendix IIA to the Circular:

	As at 30 June	**As at 31 December**		
	2017	**2016**	**2015**	**2014**
	(audited)	*(audited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	39,049	44,978	39,464	44,564
Goodwill	1	1	1	1
Other intangible assets	1,068	454	747	942
Deferred tax assets	16,509	14,117	4,554	6,726
	56,627	**59,550**	**44,766**	**52,233**
Current assets				
Inventories	305,350	285,218	265,562	261,934
Trade and notes receivables	270,721	201,846	156,856	130,481
Prepayments, deposits and other receivables	44,097	44,151	55,942	51,389
Amounts due from related parties	209,093	17,102	400,511	314,070
Cash and cash equivalents	56,533	19,375	62,104	20,707
	885,794	**567,692**	**940,975**	**778,581**
Total assets	**942,421**	**627,242**	**985,741**	**830,814**

	As at 30 June	As at 31 December		
	2017	**2016**	**2015**	**2014**
	(audited)	*(audited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade payables	108,720	109,088	92,345	86,575
Other payables and accruals	211,144	160,101	89,985	96,517
Amounts due to related parties	414,529	254,999	262,609	307,101
Interest-bearing bank borrowings	—	—	110,000	115,000
Tax payable	39,405	28,867	363	623
	773,798	**553,055**	**555,302**	**605,816**
Total assets less current liabilities	**168,623**	**74,187**	**430,439**	**224,998**
Non-current liabilities				
Interest-bearing bank borrowings	—	—	150,000	49,000
Deferred tax liabilities	—	1,462	1,430	1,423
	—	**1,462**	**151,430**	**50,423**
Total liabilities	**773,798**	**554,517**	**706,732**	**656,239**
Net current assets	**111,996**	**14,637**	**385,673**	**172,765**
Net assets	**168,623**	**72,725**	**279,009**	**174,575**
Equity attributable to owners of the Target Group	**152,990**	**57,938**	**264,398**	**163,979**

As at 30 June 2017, the Target Group recorded total assets of approximately RMB942.4 million, which mainly included (i) inventories of approximately RMB305.4 million, representing finished goods purchased from the Group and other third-party suppliers held for sale, (ii) trades and notes receivables, mainly from department stores and key accounts of approximately RMB270.7 million, and (iii) amounts due from related parties of approximately RMB209.1 million, the entire amount of which was due from Goodbaby China Commercial Co., Ltd, the holding company of the Vendor. As at 30 June 2017, non-current assets of the Target Group represented only approximately 6.0% of its total assets, the result of an "asset-light" business model as the Target Group neither owns retail shops nor directly engages in the manufacturing of MBC Products.

As at 30 June 2017, the Target Group recorded total liabilities of approximately RMB773.8 million, which mainly comprised (i) amounts due to related parties of approximately RMB414.5 million, of which approximately 95.4% was due to the Group for MBC Products purchased by the Target Group, (ii) other payables and accruals, comprising mainly prepayments received from wholesale customers for the MBC Products and other non-interest-bearing payables, of approximately RMB211.1 million, and (iii) trade payables to suppliers other than the Group, of approximately RMB108.7 million.

As at 30 June 2017, the Target Group recorded equity attributable to its owners of approximately RMB153.0 million. As advised by management of the Group, the Target Group underwent a restructuring in 2016, which included distributions of reserves to the beneficial owners of the Vendors, which in turn led to a decrease in net assets attributable to owners of the Target Group in June 2017 and December 2016, as compared to the previous years.

As at 30 June 2017 and as at 31 July 2017, the Target Group did not have any borrowings. As at 30 June 2017, the Target Group did not have any capital commitments, but had operating lease commitments for its office properties and office equipment of approximately RMB113.0 million. As set out in the letter from the Board, the Directors confirm that, based on the latest financial position of the Target Group, there is currently no intention to inject further capital into the Target Group upon or after Completion, nor does the Target Group have any foreseeable fund raising requirements.

Our comments

In general, from 2014 to 2016, revenue of the Target Group increased, while its gross and net profit margins remained stable. As a result of the introduction of new product lines and development of online-to-offline channels, the Target Group's revenue, gross and net profits grew at a faster pace in the first half of 2017 compared to the same period of 2016.

We have discussed with management of the Group and compared the gross and net profit margins of the Target Group to those of the Group, and noted that they are generally higher than those of the Group. As advised by management of the Group, such difference is mainly due to (i) the different product mix of the two groups, where the Group offers durable MBC Products while the Target Group also offers non-durable MBC Products which usually command a higher gross margin, as discussed above, and (ii) the different risks and rewards exposure between upstream manufacturing and downstream online and offline retailing. The gross profit analysis by product categories as set out above backs up our understanding from the Group's management.

The assets and liabilities of the Target Group are mainly working capital items, including inventories, trade receivables and payables, and amounts due to the Group (mostly related to the supply of durable products to the Target Group). No external borrowing is noted as at 30 June 2017, and the Directors do not expect any foreseeable fund raising requirement.

Upon Completion, the existing continuing connected transactions between the Group and the Target Group, being the purchase of MBC Products by the Target Group from the Group, will be eliminated. As advised by the management of the Group, except for the entering into of the License as a transitional arrangement, there will be no continuing connected transactions arising as a result of the Acquisition. We consider the substantial reduction of continuing connected transactions to be beneficial to the Group from a corporate governance point of view.

Prospects

The Acquisition represents a move by the Group to extend its reach to (i) the market for non-durable MBC Products, including maternity and baby-care products, and apparel products, and (ii) downstream retail and distribution of MBC Products in China, through the omni-channel sales platform of the Target Group. As stated in the letter from the Board in the Circular, the Group believes it is critical and the right time to broaden the Group's product portfolio into a wider set of MBC Products range. The addressable market is larger, with higher growth and profitability potential, driven by changes in consumption patterns and the two-child policy (as discussed below).

The Purchaser has commissioned Frost & Sullivan to prepare an industry report on the China MBC retail market. It shows that China has become one of the world's largest and fastest growing MBC Products retail markets, with a CAGR of 13.2% between 2011 and 2016. The retail market for MBC Products in China is expected to continue to grow significantly and reach RMB745.1 billion retail sales value by 2021, representing a CAGR of 15.2% from 2016 to 2021. In addition, driven by the large and growing internet and mobile internet user base, online sales of MBC Products in China have experienced strong growth in recent years. According to the Frost & Sullivan Report, the online retail market for MBC Products in China reached RMB61.4 billion in retail sales value in 2016, and is expected to continue to grow significantly at a CAGR of 23.3% from 2016 to 2021. The Frost & Sullivan Report also states that the Target Group was ranked as a top 5 MBC specialty retailer in China's MBC market by total retail sales value in 2016 and ranked as a top 3 MBC specialty retailer by online retail sales value in 2016. In October 2015, the PRC government announced the easing of child-birth restrictions. The number of new births in the PRC, as released by the National Bureau of Statistics of China, was approximately 17.9 million in 2016, a record high in the past decade. In addition, we also note from a report published by an independent consultancy firm in July 2016 that the size of China's mother-infant-child products market is expected to grow at approximately 15.0% per annum between 2015 and 2020. We concur with the Directors' views on the future prospects of the market for MBC Products in China, in particular that it will be driven by the two-child policy becoming effective in 2016, as supported by Frost & Sullivan's expectation above.

5. Assessment of the Estimated Consideration

As set out in the section headed "Information on the Target Group", the Target Group is primarily engaged in retail and distribution of MBC Products in the PRC. We have analysed the following listed companies (the "**Comparable Companies**") that we consider have a business similar to the Target Group (i.e. companies principally engaged in the downstream distribution and retail of MBC Products), based on (i) the majority of revenue being derived from MBC Products, (ii) having a market capitalisation of at least HK$1.0 billion as at the Latest Practicable Date, and (iii) having been listed on a stock exchange for at least one year. As there are no Comparable Companies with recent trading history that we could identify on the Stock Exchange, we have expanded the search for Comparable Companies to companies listed outside of Hong Kong, and a total of 6 Comparable Companies were identified. Although the Comparable Companies may have target markets in other parts of the world, they are all engaged in downstream distribution and retail of MBC Products, a business similar to the Target Group, and all fall within the criteria as described above. Their target customers are similar to those of the Target Group. Based on the above, and the fact that no Comparable Company can be identified on the Stock Exchange, we are of the view that, on balance, the Comparable Companies should be used for the purpose of assessing the Estimated Consideration. In our view, the Comparable Companies set out below represent a full list of relevant comparable companies based on the criteria above, on a best efforts basis. The table below illustrates the price-to-earnings ("**P/E**") ratio of the Comparable Companies, which we consider to be a suitable ratio for comparison, having regard to the business model of the Target Group. It makes reference to a company's income generating ability rather than, for example, the net asset backing as is the case for the price-to-book ratio, which is less relevant because the Target Company can be regarded as "asset-light" as described above:

Name of company *(Note 1)*	Latest financial year ending	Closing price as at the Latest Practicable Date	Market capitalisation as at the Latest Practicable Date *(million)*	Latest financial year's profits/(losses) attributable to shareholders *(million)* *(Note 2)*	Trailing twelve-month ("TTM") profits/(losses) attributable to shareholders *(million)* *(Note 3)*	Latest financial year P/E ratio *(times)*	TTM P/E ratio *(times)*
Carter's Inc (CRI.US)	31 December 2016	US$86.71	US$4,147.7	US$258.1	US$252.5	16.1	16.4
The Children's Place Inc (PLCE.US)	28 January 2017	US$106.15	US$1,872.5	US$102.3	US$128.9	18.3	14.5
Nishimatsuya Chain Co Ltd (7545.JP)	20 February 2017	JPY1,158.0	JPY80,584.1	JPY5,118.0	JPY5,051.0	15.7	16.0
Mothercare Plc (MTC.LN)	25 March 2017	GBP100.0	GBP170.9	GBP8.2	GBP8.2	20.8	20.8
Baby Bunting Group Ltd (BBN.AU)	25 June 2017	AUD1.84	AUD231.3	AUD12.2	AUD12.2	19.0	19.0
					Mean	18.0	17.3
					Median	18.3	16.4
					Maximum	20.8	20.8
					Minimum	15.7	14.5
Target Group			**HK$2,954.1** *(Note 4)*	**HK$116.8** *(Note 5)*	**HK$203.3** *(Note 6)*	**25.3**	**14.5**

Source: Comparable Companies' filings, Bloomberg

Notes:

(1) We also considered Boshiwa International Holding Limited (stock code: 1698) to be a Comparable Company as it falls under the above criteria. However, its shares have been suspended from trading since 15 March 2012, and the most recent available financial information is for the six month period ended 30 June 2011. Accordingly, we have excluded Boshiwa from the above table and the analysis below

(2) The latest financial year's net profits/(losses) attributable to shareholders have been extracted from the latest published annual financial statements of the Comparable Companies

(3) The trailing twelve-month profits/(losses) attributable to shareholders are calculated based on the most recently published financial information extracted from the respective annual reports, interim reports and quarterly reports, as applicable

(4) *The implied market capitalisation of the Target Group is based on the Estimated Consideration of approximately HK$2,954 million*

(5) *Being the Target Group's net profit of approximately RMB100.8 million (approximately HK$116.8 million) for the year ended 31 December 2016*

(6) *Being the Target Group TTM Net Profit for the twelve month period ended 30 June 2017*

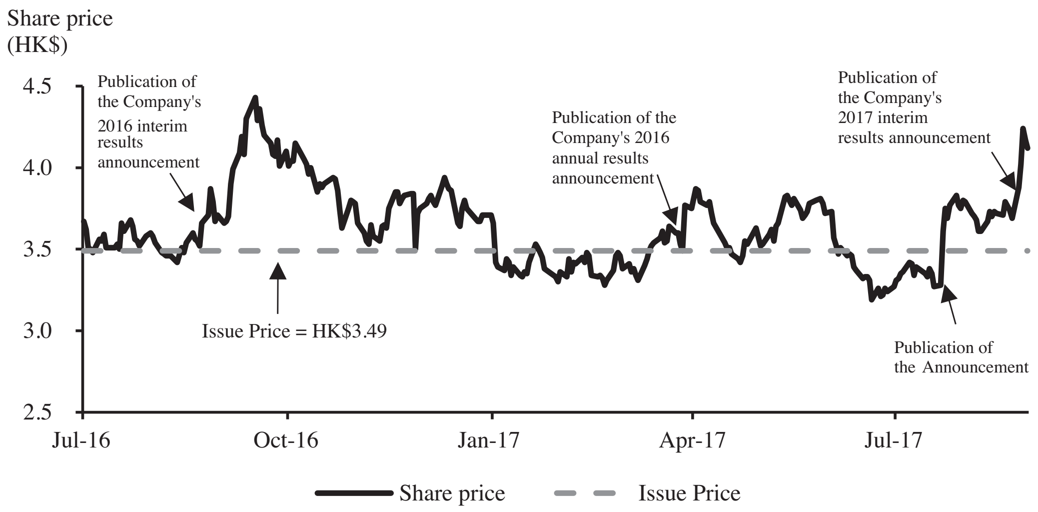
As set out in the table above, the implied P/E ratio of the Target Group is approximately 25.3 times based on 2016 earnings, which is higher than the P/E ratios of all Comparable Companies, on the basis of their most recent full year results. For the purpose of reflecting the latest performance of the Target Group and the Comparable Companies, the TTM P/E ratios of the Target Group and the Comparable Companies are also presented above, which shows an implied P/E ratio of approximately 14.5 times of the Target Group, lower than the mean and median of the P/E ratios of the Comparable Companies of approximately 17.3 and 16.4 times respectively.

The difference between the Target Group's P/E ratios on the basis of the Target Group's 2016 results and on a TTM basis we believe can be explained by its relatively strong performance in the first half of 2017 following the introduction of new products and optimisation of its omni-channel sales operations. The above Target Group TTM Net Profit of approximately HK$203.3 million was over 70% higher than its net profit in 2016. The P/E ratios of the Comparable Companies are based on trailing twelve month periods, in order to facilitate comparison with and take into account the most recent earnings of the Target Group as well as the Comparable Companies. The financial year ends of the Comparable Companies differ considerably, as set out in the table above. We consider that using implied P/E ratio on a TTM basis, which is lower than the mean and median of the Comparable Companies and equal to the lowest P/E ratio of the Comparable Companies, reflects the most up-to-date performance of the Target Group and the Comparable Companies.

6. Assessment of the Issue Price of the Consideration Shares

6.1 Historical price performance of the Shares

The share price chart below illustrates the historical closing price the Shares as quoted on the Stock Exchange from 1 July 2016 (being approximately one year prior to the publication of the Announcement) up to and including the Latest Practicable Date (the "**Review Period**").



Source: Bloomberg

In the third quarter of 2016, the market price of the Shares exhibited largely an upward trend, increasing gradually from approximately HK$3.57 in the beginning of the quarter, after a slight drop in July 2016, and closing at HK$3.71 on 29 August 2016. On 30 August 2016, the day after publication of the Group's 2016 interim results announcement, which showed an increase in net profit for the first half of 2016 by approximately 20.5% compared to the same period in 2015, the Share price increased by approximately 4.3% to HK$3.87. Subsequently, it continued to trade higher, reaching a high of HK$4.43 on 19 September 2016, the highest point during the Review Period. According to the management of the Group, they did not note any other material information relating to the Group that might have lead to the increase in the Share price, and we did not note any significant announcements by the Company during September 2016.

The price of the Shares followed a general downward trend in the fourth quarter of 2016, before steadying in early 2017 at around HK$3.40. The Shares closed at HK$3.60 on 28 March 2017, before publication of the Group's 2016 annual results announcement, which set out a net profit for the year of approximately HK$212.2 million, representing a slight increase from 2015. After gradually reaching a three-month high of HK$3.87 on 5 April 2017, the closing price of the Shares stayed above the Issue Price of HK$3.49 in general, before showing a downward trend from June 2017. On the Last Trading Date, the Share Price closed at HK$3.28.

On 25 July 2017, the trading day immediately after the publication date of the Announcement, the Share Price closed at HK$3.61, approximately 10.1% higher than the closing Share price on the Last Trading Day. In the absence of other significant news or events relating to the Group, or significant movement in the broader market, we consider it reasonable to attribute the surge in Share price to the market's reaction to the proposed Acquisition.

Subsequently, the market price of the Shares continued to stay above the Issue Price of HK$3.49, and closed at HK$3.69 on 25 August 2017, prior to the publication of the Company's 2017 interim results announcement. The Company recorded an increase in revenue of approximately 2.5% and an increase in profit attributable to the Shareholders of approximately 16.4% in the first half of 2017, compared to the same period in 2016. On the first trading day after the publication of the Company's 2017 interim results announcement, the Share price increased by approximately 5.1% and closed at HK$3.88. Since then, the Shares continued to trade higher and closed at HK$4.12 on the Latest Practicable Date.

6.2 Historical trading volumes of the Shares

The table below sets out the total monthly trading volume of the Shares during the period from 1 July 2016 up to and including 31 August 2017, and the percentage of total monthly trading volume of the Shares to the total issued number of Shares and the public float in each of the respective months:

	Total monthly trading volume of the Shares	**% of total monthly trading volume of the Shares to the total issued Shares** *(Note 1)*	**% of total monthly trading volume of the Shares to the total public float** *(Note 2)*
2016			
July	28,989,501	2.6%	3.5%
August	52,332,741	4.7%	6.4%
September	78,258,845	7.0%	9.6%
October	38,217,948	3.4%	4.7%
November	54,552,071	4.9%	6.7%
December	48,385,497	4.3%	5.9%
2017			
January	35,303,155	3.2%	4.3%
February	53,276,094	4.8%	6.5%
March	63,475,625	5.7%	7.8%
April	37,259,440	3.3%	4.6%
May	38,408,973	3.4%	4.7%
June	51,517,508	4.6%	6.3%
July	73,503,906	6.6%	8.9%
August	51,262,380	4.6%	6.2%

Source: Stock Exchange, the Company

Notes:

(1) *Based on the number of Shares in issue as at the end of each respective month*

(2) *Based on the number of Shares as held in public hands as at the end of each respective month*

As shown in the above table, the monthly trading volumes of the Shares represented approximately 2.6% to 7.0% of the total issued Shares, equivalent to approximately 3.5% to 9.6% of the Shares constituting the public float of the Company. On the basis of the above, the Shares have been fairly actively traded, in particular in the months during which the Company announced its interim or annual results, such as August 2016 and March 2017. We also note that following the publication of the Announcement the trading volumes of the Shares increased significantly in the subsequent five trading days, with an aggregate of approximately 55.8 million shares traded, representing approximately 75.9% of total trading volume in July 2017.

6.3 Analysis of the Issue Price

The Issue Price of HK$3.49 for the Consideration Shares represents:

1. a premium of approximately 6.4% over HK$3.28, the closing price of the Shares as quoted on the Stock Exchange on 24 July 2017, being the Last Trading Date;

2. a premium of approximately 4.8% over HK$3.33, the average closing price of Shares as quoted on the Stock Exchange for the last 30 full trading days up to and including the Last Trading Date;

3. a discount of approximately 0.2% to approximately HK$3.4962, the average closing price of Shares as quoted on the Stock Exchange for the last 60 full trading days up to and including the Last Trading Date;

4. a discount of approximately 1.1% to approximately HK$3.5291, the average closing price of Shares as quoted on the Stock Exchange for the last 90 full trading days up to and including the Last Trading Date;

5. a discount of approximately 15.3% to approximately HK$4.12, the closing price of Shares as quoted on the Stock Exchange on the Latest Practicable Date; and

6. a premium of approximately 57.2% over the audited net asset value of the Group of approximately HK$2.22 per Share as at 31 December 2016.

As mentioned above, the Share Price fluctuated between HK$3.28 and HK$3.87 since the beginning of 2017 and began to trend downwards in June 2017. By reference to the Last Trading Date and the average closing price of Shares for the last 30 full trading days, the Issue Price of HK$3.49 represented a premium over the average closing price of the Shares. On the basis of the average closing price of Shares for the last 60 and 90 full trading days respectively, the Issue Price represented discounts of approximately 0.2% and 1.1% respectively. Overall, as outlined above, the Issue Price is in general higher than the average closing price of the Shares on a short term basis, but slightly below, albeit close to, the average closing price of the Shares on a 60-day and 90-day basis. We consider the Issue Price to be set at a reasonable level, based on the fact that it is close to the average market prices of the Shares in 2017 prior to the Announcement.

7. The Whitewash Waiver

7.1 Background

As at the Latest Practicable Date, members of the Concert Group were, in aggregate, interested in (i) 298,033,498 Shares, representing approximately 26.6% of the issued share capital of the Company; and (ii) 17,380,000 Share options, which together with their interest in 298,033,498 Shares, represented approximately 27.7% of the issued share capital of the Company, assuming full exercise of the Share Options.

Upon Completion and completion of the Distribution and the Repurchase, assuming none of the Share Options will be exercised, the Concert Group will, in aggregate, be interested in 834,133,498 Shares, representing (i) approximately 74.5% of the issued share capital of the Company; and (ii) approximately 50.4% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares, as at the Latest Practicable Date.

In absence of the Whitewash Waiver, the Whitewash Applicant would be obligated to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Concert Group as a result of the issue of the Consideration Shares and the Distribution. An application to the Executive for the Whitewash Waiver has been made. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll.

7.2 The Whitewash Waiver as a condition to the Acquisition

Independent Shareholders should note that Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and the Independent Shareholders approving the Whitewash Waiver at the EGM on a vote to be taken by way of a poll. The Executive may or may not grant the Whitewash Waiver and the Independent Shareholders may or may not approve the Whitewash Waiver. The Acquisition will not proceed if the Whitewash Waiver is not so granted or approved.

Having considered (i) the benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition"; (ii) the fairness and reasonableness of the terms of the Agreement (including the Consideration and the Issue Price); and (iii) the obtaining of the Whitewash Waiver being an essential element of the Acquisition, the granting of the Whitewash Waiver is considered fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

8. The Distribution and effect of the Acquisition on the shareholding structure of the Company

At Completion, the Vendor will effect the Repurchase and the Distribution, including (i) repurchasing shares of the Vendor held by certain of its shareholders; (ii) distribution in specie of the Consideration Shares by the Vendor; and (iii) payment of a dividend by the Vendor to its shareholders, upon completion of the Repurchase. Following completion of the Distribution, the Consideration Shares to be issued to the Vendor will be directly held by certain of its shareholders.

Set out below is a table showing the shareholding structure of the Company as at the Latest Practicable Date, and immediately upon Completion and completion of the Repurchase and the Distribution:

	As at the Latest Practicable Date		**Immediately upon Completion and completion of the Repurchase and the Distribution**	
Name of Shareholder	**Number of Shares**	**Approximate percentage of total issued Shares**	**Number of Shares**	**Approximate percentage of total issued Shares** *(Note 1)*
The Concert Group (excluding Mr. Martin Pos)	259,000,000	23.1%	795,100,000	48.0%
Mr. Martin Pos *(Note 2)*	39,033,498	3.5%	39,033,498	2.4%
Public Shareholders	821,804,502	73.4%	821,804,502	49.6%
Total	**1,119,838,000**	**100.0%**	**1,655,938,000**	**100.0%**

Notes:

(1) Assuming no other Shares are issued other than the Consideration Shares from the Latest Practicable Date until Completion

(2) Mr. Martin Pos is presumed to be acting in concert with PUD under class (6) presumption until Completion. This class (6) presumption will cease to apply after Completion

As illustrated above, the shareholdings in the Company held by the existing public Shareholders would be diluted from approximately 73.4% as at the Latest Practicable Date to approximately 49.6% upon the allotment and issue of the Consideration Shares and completion of the Repurchase and the Distribution. For further details on the shareholding structure of the Company, please make reference to the letter from the Board in the Circular.

We note that there will be substantial dilution to the shareholdings in the Company held by the existing public Shareholders as a result of the issue of the Consideration Shares. However, having considered (i) the benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition", and (ii) the Issue Price being fair and reasonable, given that it represents (a) a premium over the average closing price of the Shares on a Last Trading Date and on a last 30 full trading days basis, and (b) a minimal discount to the average closing price of the Shares on a last 60, 90 and 180 full trading days basis, we consider the dilution to be acceptable.

9. Financial effects of the Acquisition on the Group

Following Completion, the Target Company will become a subsidiary of the Company. As such, the operating results and the financial position of the Target Group will be consolidated into the financial statements of the Group.

9.1 Earnings

As set out in the section headed "Financial performance and position of the Target Group", the Target Group has achieved higher gross margins and profit margins than the Group in the past. As a result, on a historical pro-forma basis, the gross margin and profit margin of the enlarged Group would improve following Completion. In addition, according to the Frost & Sullivan Report, the retail market size and the CAGR for non-durable MBC Products in China are estimated to grow faster than the durable MBC Products from 2016 to 2021. As such, the Acquisition would have a positive effect on the future growth of the Group's revenue.

9.2 Assets and liabilities

As at 30 June 2017, the unaudited total assets and total liabilities of the Group amounted to approximately HK$6,199.4 million and HK$3,551.4 million respectively. Assuming the Acquisition had been completed on 30 June 2017, the total assets and total liabilities of the enlarged Group as at 30 June 2017 would be increased to approximately HK$9,257.8 million and HK$4,768.6 million respectively, according to the unaudited pro forma consolidated statement of assets and liabilities of the enlarged Group as set out in Appendix IIC to the Circular.

Shareholders should note that as set out in note 4 to the unaudited pro forma financial information of the enlarged Group, the enlarged Group would have a significant amount of goodwill of approximately HK$2.8 billion, arising from the Acquisition, which is the difference between the Consideration and the estimated fair value of the identifiable net assets of the Target Group. For the purpose of the pro forma statement, it is assumed that the carrying values of the identifiable assets and liabilities of the Target Group approximate to their fair values. A fair value assessment will be conducted upon Completion to substantiate the value of the goodwill, intangible assets and deferred tax impact arising from fair value adjustments. As advised by the management of the Group, the Directors consider that there is no impairment loss on such goodwill in accordance with the Company's accounting policies.

The net assets of the Group would increase substantially, from approximately HK$2,647.9 million as at 30 June 2017 to approximately HK$4,489.2 million on a pro forma basis, principally due to the issue of the Consideration Shares which would enlarge the capital base of the Company. On a per Share basis, the Group's net asset attributable to the Shareholders as at 30 June 2017 was approximately HK$2.33 per Share. As the Issue Price of HK$3.49 per Consideration Share is higher than the existing net asset value per Share, the resultant net asset value per Share after Completion is expected to be enhanced.

9.3 Gearing

As at 30 June 2017, the Group's gearing ratio is approximately 48.6%. As at the same date and as set out in Appendix IIC to the Circular, the Target Group did not have any borrowings. On a pro forma basis, as set out in the letter from the Board, management of the Group considers that the enlarged Group's gearing ratio would broadly similar, at approximately 47.0%. The gearing figure is primarily affected by the result of (i) having obtained a new bank loan with a principal amount of US$100.0 million as stated in note 3 to the pro forma financials in Appendix IIC to the Circular, (ii) having issued the Consideration Shares to finance the Acquisition, and (iii) having incurred transaction costs in relation to the Acquisition. Management of the Group considers the level of the pro forma gearing ratio of the enlarged Group, as stated above, to be reasonable in the context of the Group's business model.

DISCUSSION

The Group is principally engaged in the design, research and development, manufacture, marketing and sale of durable juvenile products. Its customers are mainly distributors overseas and in the PRC (including the Target Group). On the other hand, the Target Group is principally engaged in the retail of MBC Products (both durable and non-durable) through its omni-channel sales platform, and the product development and distribution of non-durable MBC Products. We concur with the Directors that the Acquisition represents a strategic move by the Group to form a vertically integrated business model, to broaden its product portfolio and to capture the growth in China's MBC Products market. From a corporate governance point of view, the Acquisition would also have the benefit of eliminating substantial existing continuing connected transactions between the Group and the Target Group.

The Target Group has recently experienced substantial growth in revenue and net profit, due to the greater contribution of higher margin MBC product sales, and improvement in operating efficiencies. Based on the Estimated Consideration and the Target Group TTM Net Profit, the implied P/E ratio of the Target Group is approximately 14.5 times. This compares favourably with the P/E ratios of its international peers, with the mean and median of approximately 17.3 times and 16.4 times.

The Consideration will be financed approximately one-third by cash and two-thirds by the issue of the Consideration Shares. It is expected that the cash portion will be financed by bank loans and internal resources. We consider the Acquisition to be a sizeable one which should be prudently financed principally by shares, bearing in mind the Group's latest gearing ratio of 48.6% as at 30 June

2017. We also consider it reasonable for the Issue Price (of HK$3.49 per Consideration Share) to be set at a level close to average market prices of the Shares in 2017 prior to the Announcement. Following the announcement, the market prices of the Shares has increased and was HK$4.12 at the Latest Practicable Date.

Upon Completion, the Target Group will contribute to the profitability of the Group. The enlarged Group's gross margin and profit margin is expected to improve, as a result of the expansion of the Group's product portfolio from durable juvenile products to a wider range of MBC Products with higher margins and a larger addressable market with greater growth potential.

The issue of the Consideration Shares will result in Shares held by public Shareholders being diluted from approximately 73.4% to approximately 49.6%. Taking into account the merits of the Acquisition and the need for a prudent financial structure, we consider such dilution to be acceptable. On the other hand, the Concert Group will, as a result of the issue of the Consideration Shares, increase its shareholding in the Company from approximately 26.6% to approximately 50.4%, which would trigger a general offer in the absence of the Whitewash Waiver. Independent Shareholders should note that the Acquisition is conditional on the Whitewash Waiver being granted and this condition is not waivable, i.e. if the Whitewash Waiver is not granted, the Acquisition will not proceed.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out above, we consider that the Acquisition is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We consider the entering into of the Agreement, while not in the ordinary and usual course of business of the Company, is in the interests of the Company and its Shareholders as a whole. We also consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to approve the Acquisition and the Whitewash Waiver at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M. N. Sabine	**John Wong**
Chairman	*Director*

Mr. M. N. Sabine is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years of experience in the corporate finance industry.

Mr. John Wong is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited. He has over nine years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information on the Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the 6 months ended 30 June 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk):

annual report of the Company for the year ended 31 December 2014:
http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0422/LTN20150422063.pdf

annual report of the Company for the year ended 31 December 2015:
http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0425/LTN20160425433.pdf

annual report of the Company for the year ended 31 December 2016:
http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN20170424037.pdf

interim results announcement of the Company for the six months ended 30 June 2017
http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0827/LTN20170827091.pdf

The auditors of the Company have issued unqualified opinions on the audited consolidated financial statements of the Group for the years ended 31 December 2014, 2015 and 2016.

A final dividend of nil, HK$0.05 per share and HK$0.05 per share absorbing a total amount of nil, HK$55,430,000 and HK$55,759,000 were declared for the years ended 31 December 2014, 2015 and 2016 respectively.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial information of the Group for the financial year ended ended 31 December 2016 as extracted from the 2016 annual report of the Company:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** *(HK$'000)*	**2015** *(HK$'000)*
Revenue	5	6,238,179	6,951,131
Cost of sales		(4,126,715)	(4,900,919)
Gross profit		2,111,464	2,050,212
Other income and gains	5	59,101	94,881
Selling and distribution expenses		(982,468)	(1,030,382)
Administrative expenses		(924,260)	(794,064)
Other expenses		(50,199)	(3,062)
Finance income	6	3,347	7,246
Finance costs	7	(55,166)	(60,466)
Share of gains/(losses) of a joint venture		26	(30)
Share of losses of an associate		—	(8)
PROFIT BEFORE TAX	8	161,845	264,327
Income tax credit/(expense)	11	50,395	(61,655)
PROFIT FOR THE YEAR		212,240	202,672
Attributable to:			
Owners of the parent		207,390	197,434
Non-controlling interests		4,850	5,238
		212,240	202,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.19	0.18
Diluted			
For profit for the year (HK$)		0.19	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2016

	Notes	**31 December 2016** *(HK$'000)*	**31 December 2015** *(HK$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment	14	858,194	878,769
Prepaid land lease payments	15	53,895	59,608
Goodwill	16	811,662	819,619
Other intangible assets	17	655,866	682,256
Investment in a joint venture		814	844
Deferred tax assets	30	130,880	43,092
Other long-term assets	18	7,845	3,637
Total non-current assets		2,519,156	2,487,825
CURRENT ASSETS			
Inventories	19	1,099,846	1,244,756
Trade and notes receivables	20	644,440	695,599
Prepayments and other receivables	21	187,381	143,629
Due from related parties	37	284,395	303,758
Available-for-sale investments	22	—	310,347
Cash and cash equivalents	23	758,153	705,291
Time deposits	23	—	2,726
Pledged time deposits	23	25,367	27,199
Derivative financial instruments	24	—	421
Total current assets		2,999,582	3,433,726
CURRENT LIABILITIES			
Trade and bills payables	25	926,464	941,205
Other payables, advances from customers and accruals	26	557,925	463,929
Income tax payable		28,307	68,205
Provision	27	63,928	37,353
Interest-bearing bank loans and other borrowings	28	278,236	691,700
Defined benefit plan liabilities	29	388	465
Dividends payable		8	8
Total current liabilities		1,855,256	2,202,865
NET CURRENT ASSETS		1,144,326	1,230,861
TOTAL ASSETS LESS CURRENT LIABILITIES		3,663,482	3,718,686

	Notes	**31 December 2016** *(HK$'000)*	**31 December 2015** *(HK$'000)*
TOTAL ASSETS LESS CURRENT LIABILITIES		3,663,482	3,718,686
NON-CURRENT LIABILITIES			
Interest-bearing bank loan and other borrowings	28	950,521	1,005,918
Provision	27	63,708	78,732
Defined benefit plan liabilities	29	12,717	14,216
Other liabilities	31	12,475	10,577
Deferred tax liabilities	30	145,899	201,141
Total non-current liabilities		1,185,320	1,310,584
Net assets		2,478,162	2,408,102
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	11,151	11,086
Reserves	34	2,429,129	2,354,172
		2,440,280	2,365,258
Non-controlling interests		37,882	42,844
Total equity		2,478,162	2,408,102

SONG Zhenghuan
Director

WANG Haiye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	Share capital	**Share premium**	**Deferred share reserve**	**Share option reserve**	**Statutory reserve funds**	**Cumulative translation adjustments**	**Defined benefit plans**	**Merger reserve**	**Capital reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	Note 32		*Note 34*		*Note 34*		*Note 29*	*Note 34*					
At 1 January 2015	11,010	1,183,406	15,524	20,873	140,270	168,006	(6,511)	153,975	—	610,351	2,296,904	30,756	2,327,660
Profit for the year	—	—	—	—	—	—	—	—	—	197,434	197,434	5,238	202,672
Remeasurement effects of defined benefit plans	—	—	—	—	—	—	325	—	—	—	325	—	325
Exchange differences on translation	—	—	—	—	—	(128,419)	—	—	—	—	(128,419)	(971)	(129,390)
Total comprehensive income for the year	—	—	—	—	—	(128,419)	325	—	—	197,434	69,340	4,267	73,607
Deferred shares	45	15,479	(15,524)	—	—	—	—	—	—	—	—	—	—
Share options exercised	31	9,193	—	(2,680)	—	—	—	—	—	—	6,544	—	6,544
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	7,821	7,821
Profit appropriation	—	—	—	—	9,229	—	—	—	—	(9,229)	—	—	—
Equity-settled share option arrangements	—	—	—	12,714	—	—	—	—	—	—	12,714	—	12,714
Put option over non-controlling interests	—	—	—	—	—	—	—	—	(20,244)	—	(20,244)	—	(20,244)
At 31 December 2015 and 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
As at 31 December 2016	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

* These reserve accounts comprise the consolidated reserves of HK$2,429,129,000 (2015: HK$2,354,172,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2016

	2016	2015
	(HK$'000)	*(HK$'000)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:	161,845	264,327
Adjustments for:		
Depreciation and amortisation	198,740	195,440
Loss on disposal of items of property, plant and equipment	22,991	2,465
Share of (gains)/losses of a joint venture	(26)	30
Share of losses of an associate	—	8
Write-down of inventories	20,252	28,092
Provision for impairment of receivables	8,076	—
Provision for impairment of property, plant and equipment	6,797	—
Reversal of impairment of receivables	—	(644)
Interest expense	55,166	60,466
Interest income	(3,347)	(7,246)
Gain on wealth investment products received	(5,879)	(3,242)
(Decrease)/increase in defined benefit plan liabilities	(1,576)	1,501
Increase in other liabilities	1,898	1,536
Decrease in inventories	124,658	273,281
Decrease in trade and notes receivables	43,083	285,283
(Increase)/decrease in prepayments and other receivables	(44,110)	50,844
Decrease in amounts due from related parties	19,363	75,394
Increase from other long-term assets	(4,208)	(3,637)
Decrease in trade and bills payables	(14,741)	(194,518)
Increase in other payables, advances from customers and accruals	68,001	94,581
Increase in provision	11,551	11,805
Income tax paid	(132,533)	(62,949)
Fair value gain on derivative financial instruments	—	(426)
Net cash flows generated from operating activities	536,001	1,072,391

	Note	**2016** *(HK$'000)*	**2015** *(HK$'000)*
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in an associate		—	(8)
Acquisition of a subsidiary		—	(32,541)
Purchase of property, plant and equipment		(264,475)	(183,843)
Purchase of intangible assets		(14,465)	(15,803)
Purchase of available-for-sale financial investments		—	(120,733)
Proceeds from disposal of available-for-sale financial investments		304,001	—
Interest received		3,705	6,888
Gain on wealth investment products received		5,879	3,242
Decrease in time deposits		2,726	47,997
Proceeds from disposal of intangible assets		264	—
Proceeds from disposal of items of property, plant and equipment		35,753	11,002
Net cash flows generated from/(used in) investing activities		73,388	(283,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		13,846	6,544
Proceeds from borrowings		901,742	387,549
Repayment of borrowings		(1,342,273)	(989,022)
Interest paid		(53,108)	(50,266)
Decrease in pledged time deposits		1,832	138,608
Dividends paid		(55,679)	—
Net cash flows used in financing activities		(533,640)	(506,587)
NET INCREASE IN CASH AND CASH EQUIVALENTS		75,749	282,005
Cash and cash equivalents at beginning of year		705,291	434,661
Effect of foreign exchange rate changes,net		(22,887)	(11,375)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	758,153	705,291

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION

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

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

INFORMATION ABOUT SUBSIDIARIES

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

Name of company Subsidiaries	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Paid-in/issued and fully paid share capital	Principal activities
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	—	HK$1,000	Investment holding and sales agent company
Goodbaby Children's Products, Inc. ("GCPI")	The United States of America ("US"), 16 May 2002	—	100%	US$200,000	R&D services and preliminary product design service
Goodbaby Child Products Co., Ltd. ("GCPC")	The People's Republic of China ("PRC"), 18 November 1994	—	100%	US$52,000,000	Manufacturing, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
Ningbo Goodbaby Child Products Co., Ltd. ("GCPN")	PRC, 9 September 1996	—	85%	RMB10,000,000	Manufacturing, 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	Manufacturing, 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	Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs

Name of company Subsidiaries	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Paid-in/issued and fully paid share capital	Principal activities
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%	US7,000	Manufacture of baby care products
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		94.5%	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

Name of company Subsidiaries	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Paid-in/issued and fully paid share capital	Principal activities
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

2.1 BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

4 No mandatory effective date determined but available for adoption

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

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

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

(A) **CLASSIFICATION AND MEASUREMENT**

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

(B) **IMPAIRMENT**

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

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

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

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

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

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

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 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*.

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.

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.

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.

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.

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.

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	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.

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 amounting to HK$458,210,000 (2015: HK$470,640,000) acquired through the business combinations of Columbus Holding GmbH and WP Evenflo Group Holdings, Inc. whose useful lives are indefinite.

Computer software

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

Patents, non-compete agreement and customer relationship

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

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.

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.

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.

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.

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.

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 judgment. 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.

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, 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.

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 the 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.

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.

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.

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.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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.

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.

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 34 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.

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. Group contributions to the plans are based on employee contributions or compensation.

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.

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 translation adjustments. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of 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.

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 2016 was approximately HK$811,662,000 (2015: HK$819,619,000). 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.

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 ageing and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for write-down, if appropriate.

Provisions

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

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.

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, manufacturing and selling of strollers and accessories under the Group's own brands and third parties' brands;

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

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

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

Year ended 31 December 2016

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

Year ended 31 December 2015

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

GEOGRAPHICAL INFORMATION

(a) **Revenue from external customers**

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

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

(b) **Non-current assets**

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

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

INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2016, revenue from sales to a major customer of 3rd party accounting for 10% or more of the total net sales of the Group is 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 other durable juvenile products 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, except a related party disclosed in note 37 (b). During the year ended 31 December 2015, there was no single customer of 3rd party accounted for 10% or more of the total net sales of the Group.

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

Note (b): The amount represents the gain on disposal of wealth investment products.

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

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

6. FINANCE INCOME

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

7. FINANCE COSTS

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

8. PROFIT BEFORE TAX

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

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

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:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Fees	1,686	1,505
Other emoluments:		
Salaries, allowances and benefits in kind	18,006	18,727
Performance-related bonuses	280	6,002
Pension scheme contributions	252	178
	18,538	24,907
	20,224	26,412

(A) **INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Iain Ferguson BRUCE	446	388
SHI Xiaoguang	297	256
CHIANG Yun*	297	256
	1,040	900

There were no other emoluments payable to the independent non-executive directors in 2016 (2015: Nil).

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

2016

	Fees *(HK$'000)*	**Salaries, allowances and benefits in kind** *(HK$'000)*	**Performance-related bonuses** *(HK$'000)*	**Pension scheme contributions** *(HK$'000)*	**Total remuneration** *(HK$'000)*
Executive directors:					
SONG Zhenghuan	—	3,528	—	—	3,528
Martin POS	—	6,324	—	—	6,324
Michael, QU Nan	—	3,166		60	3,226
WANG Haiye	—	3,867	—	11	3,878
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 executive directors, with effect from 25 July 2016.

2015

	Fees *(HK$'000)*	**Salaries, allowances and benefits in kind** *(HK$'000)*	**Performance-related bonuses** *(HK$'000)*	**Pension scheme contributions** *(HK$'000)*	**Total remuneration** *(HK$'000)*
Executive directors:					
SONG Zhenghuan	—	7,496	—	—	7,496
Martin POS	—	3,959	2,573	106	6,638
Michael, QU Nan	—	3,163	1,938	60	5,161
WANG Haiye	—	4,109	1,491	12	5,612
	—	18,727	6,002	178	24,907
Non-executive director:					
ERIC, Ho Kwok Yin	605	—	—	—	605

There was no arrangement under which a director waived or agreed to waive any remuneration in 2016 (2015: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2015: four), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2015: one) non-director, highest paid employee for the year are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Salaries, allowances and benefits in kind	7,769	4,109
Performance related bonus	—	1,429
Pension scheme contributions	198	93
	7,967	5,631

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

	Number of employees	
	2016	**2015**
HK$3,000,001 to HK$3,500,000	—	1
HK$3,500,001 to HK$4,000,000	2	—
	2	1

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 (2015: None).

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% and 9.99% in the respective states where the subsidiary operates, and the federal income tax rates range from 34% to 35% on a progressive basis.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 10% to 25.5% on a progressive basis.

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

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

The Group's subsidiary registered in 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, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") is qualified as a "High and New Technology Enterprise" and are entitled to a preferential tax rate of 15% from 2014 to 2016.

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

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Current - income tax		
Charge for the year	89,064	94,151
Underprovision in prior years	122	279
Deferred income tax (note 30)	(139,581)	(32,775)
Income tax (credit)/expense reported in the statement of profit or loss	(50,395)	61,655

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

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

12. DIVIDENDS

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

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

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,112,749,000 in issue during the year (2015: 1,104,079,000).

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

The calculation of earnings per share is based on:

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

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

14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2016

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(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)
Translation adjustments	(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

31 DECEMBER 2015

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
At 31 December 2014 and at 1 January 2015:							
Cost	588,205	778,800	11,564	283,486	65,442	46,060	1,773,557
Accumulated depreciation	(225,595)	(436,541)	(6,407)	(147,656)	(36,405)	—	(852,604)
Net carrying amount	362,610	342,259	5,157	135,830	29,037	46,060	920,953
At 1 January 2015, net of accumulated depreciation	362,610	342,259	5,157	135,830	29,037	46,060	920,953
Additions	938	77,008	263	41,393	9,136	55,105	183,843
Acquisition of subsidiaries	—	—	—	51	—	—	51
Disposals	(138)	(5,552)	(58)	(1,155)	(126)	(6,438)	(13,467)
Depreciation provided during the year	(26,892)	(79,564)	(1,915)	(60,727)	(4,744)	—	(173,842)
Transfers	1,996	47,632	116	7,537	—	(57,281)	—
Translation adjustments	(14,438)	(12,196)	(228)	(6,321)	(4,380)	(1,207)	(38,770)
At 31 December 2015, net of accumulated depreciation	324,076	369,587	3,335	116,608	28,923	36,240	878,769
At 31 December 2015:							
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

15. PREPAID LAND LEASE PAYMENTS

	2016	2015
	(HK$'000)	*(HK$'000)*
At beginning of year	59,608	65,449
Amortisation	(2,096)	(2,228)
Translation adjustments	(3,617)	(3,613)
At end of year	53,895	59,608

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2015 (restated)	837,717
Acquisition of subsidiaries	5,692
Exchange realignment	(23,790)
Cost and net carrying amount at 31 December 2015 and 1 January 2016	819,619
Exchange realignment	(7,957)
Cost and net carrying amount at 31 December 2016	811,662

IMPAIRMENT TESTING OF GOODWILL

Goodwill is allocated to the following cash-generating units ("CGU") for impairment testing:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Manufacture and export of stroller-related products unit	13,968	14,928
Evenflo unit	610,938	610,675
Columbus unit	181,846	188,324
NICAM unit	4,910	5,692
	811,662	819,619

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 2016 was 14.0% (2015: 14.0%).

EVENFLO UNIT

The recoverable amount of Evenflo 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 2016 was 10.0% (2015: 10.0%).

COLUMBUS UNIT

The recoverable amount of Columbus 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 2016 was 10.5% (2015: 11.5%).

NICAM UNIT

The recoverable amount of NICAM 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 2016 was 11.5% (2015: 11.5%).

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.

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2016

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'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)
Translation adjustments	(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

31 DECEMBER 2015

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
At 31 December 2014 and at 1 January 2015:						
Cost	545,644	19,911	6,842	125,579	57,465	755,441
Accumulated amortisation	(23,922)	(9,588)	(1,254)	(5,054)	(3,714)	(43,532)
Net carrying amount	521,722	10,323	5,588	120,525	53,751	711,909
At 1 January 2015, net of accumulated amortisation	521,722	10,323	5,588	120,525	53,751	711,909
Additions	3,981	9,884	—	—	1,938	15,803
Acquisition of subsidiaries	—	—	—	25,581	—	25,581
Amortisation provided during the year	(1,029)	(3,374)	(1,242)	(9,036)	(4,689)	(19,370)
Translation adjustments	(38,716)	(621)	(565)	(7,389)	(4,376)	(51,667)
At 31 December 2015, net of accumulated depreciation	485,958	16,212	3,781	129,681	46,624	682,256
At 31 December 2015:						
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

18. OTHER LONG-TERM ASSETS

Other long-term assets represents a call option over non-controlling interests of HK$5,348,000 (2015: HK$3,637,000) arising from a acquisition of a subsidiary and a deposit for insurance over 1 year of HK$2,497,000 (2015: Nil).

19. INVENTORIES

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

20. TRADE AND NOTES RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

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

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

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

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

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

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

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

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Neither past due nor impaired	518,451	560,959
Less than 1 month past due	92,685	90,848
1 to 2 months past due	9,574	10,440
2 to 3 months past due	7,395	17,139
Over 3 months and within 1 year past due	8,962	13,706
At end of year	637,067	693,092

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

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

21. PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	(HK$'000)	*(HK$'000)*
Prepayments	90,026	50,034
Other receivables	97,355	93,595
	187,381	143,629

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

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

23. CASH AND CASH EQUIVALENTS

	2016	2015
	(HK$'000)	*(HK$'000)*
Cash and bank balances	758,153	705,291
Time deposits	—	2,726
Pledged time deposits	25,367	27,199
	783,520	735,216
Less: Time deposits	—	2,726
Pledged time deposits:		
Pledged for import bill advance	25,367	—
Pledged for short term bank loans	—	27,199
Cash and cash equivalents	758,153	705,291
Denominated in USD	467,167	524,956
Denominated in RMB	259,256	146,971
Denominated in EUR	21,988	32,268
Denominated in HK$	6,209	2,241
Denominated in other currencies	28,900	28,780
Cash and bank balances	783,520	735,216

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

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Forward currency contracts	—	421

The Group uses forward currency contracts to manage some of its transaction exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss.

25. TRADE AND BILLS PAYABLES

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

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

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Other payables	92,021	84,574
Advances from customers	94,284	76,441
Accruals	371,620	302,914
	557,925	463,929

The above balances are non-interest-bearing and repayable on demand.

27. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2015	104,280
Additional provision	33,031
Addition from acquisition	
Amounts utilised	(26,007)
Translation adjustments	4,781
Balance at 31 December 2015 and 1 January 2016	116,085
Additional provision	41,419
Amounts utilised	(30,517)
Translation adjustments	649
Balance at 31 December 2016	127,636
Portion classified as current liabilities	63,928
Non-current portion	63,708

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 2016, the amount of product warranties is HK$15,466,000.

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 management of the Group with pattern of past experience of how the Group discharged its obligation. As at 31 December 2016, the amount of product liabilities was HK$112,170,000.

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

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

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

(i) A corporate guarantee by the Company and a subsidiary of the Company;

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

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

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

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

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

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 2016 by an independent actuary, a member of the Society of Actuaries in the United States, using the projected unit credit actuarial valuation method.

The principal actuarial assumption used as at the end of the reporting period is as follows:

	2016	**2015**
Discount rate (%)	3.75%	3.95%

The actuarial valuation showed that the market value of plan assets was HK$100,836,000 and that the actuarial value of these assets represented 95% of the benefits that had accrued to qualifying employees. The deficiency of HK$5,001,000 is expected to be cleared over the remaining weighted average duration of the benefit obligation of 9.91 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 benefit obligations**	**Decrease in rate**	**Increase/ (decrease) in defined benefit obligations**
	%	*(HK$'000)*	*%*	*(HK$'000)*
2016				
Discount rate	0.5	(4,252)	0.5	4,609
2015				
Discount rate	0.5	(4,587)	0.5	4,984

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.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Interest cost	256	116
Net benifit expense	256	116
Administrative expense relating to plan assets	1,420	1,605

The movements in the present value of the defined benefit obligations are as follows:

	2016	2015
	(HK$'000)	*(HK$'000)*
Assets at 1 January	(110,054)	(118,859)
Interest cost	(4,182)	(4,124)
Benefit paid	7,464	9,209
Remeasurement effects recognised in OCI	985	3,635
Exchange differences on a foreign plan	(50)	85
Liabilities at 31 December	(105,837)	(110,054)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2016

		Cost (charged)/credited to profit or loss				Remeasurement gains/(losses) in other comprehensive income						
	1 January 2016	Administrative expenses	(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$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'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 liability	(5,914)	(1,420)	(256)	(1,676)	—	1,606	1,629	(1,529)	885	2,591	(2)	(5,001)

2015

		Cost (charged)/credited to profit or loss				Remeasurement gains/(losses) in other comprehensive income						
	1 January 2015	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 2015
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Defined benefit obligations	(118,859)	—	(4,124)	(4,124)	9,209	—	(171)	3,008	798	3,635	85	(110,054)
Fair value of plan assets	116,230	(1,605)	4,008	2,403	(9,209)	(5,201)	—	—	—	(5,201)	(83)	104,140
Benefit liability	(2,629)	(1,605)	(116)	(1,721)	—	(5,201)	(171)	3,008	798	(1,566)	2	(5,914)

The major categories of the fair value of the total plan assets are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Equity instruments, quoted in an active market	59,862	67,037
Debt instruments	36,546	32,693
Cash and cash equivalents	4,428	4,410

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 2016.

Key assumptions used in the accounting for postretirement benefits are summarised below.

	2016	**2015**
Discount rate (%)	3.65	3.8
Current healthcare cost trend rate (%)	7.0	7.3
Ultimate healthcare cost trend rate (%)	5.0	5.0

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**	**Decrease in rate**	**Increase/ (decrease) in defined benefit obligations**
	%	*(HK$'000)*	%	*(HK$'000)*
2016				
Discount rate	0.5	(318)	0.5	349
Healthcare trend rate	1.0	264	1.0	(310)
2015				
Discount rate	0.5	(357)	0.5	388
Healthcare trend rate	1.0	256	1.0	(318)

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.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Interest cost	318	357
Net benefit cost	318	357
Recognised in administrative expenses	318	357

The movements in the present value of the defined benefit obligations are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
At 1 January	(8,767)	(10,551)
Interest cost	(318)	(357)
Remeasurement effects recognised in OCI	652	1,891
Benefits paid directly by the Group	334	240
Exchange differences on a foreign plan	(5)	10
At 31 December	(8,104)	(8,767)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2016

		Cost charged to profit or loss			Remeasurement gains in other comprehensive income					
	1 January 2016	**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 2016**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Benefit obligations	(8,767)	(318)	(318)	334	116	303	233	652	(5)	(8,104)
Benefit liability	(8,767)	(318)	(318)	334	116	303	233	652	(5)	(8,104)

2015

	Cost charged to profit or loss			Remeasurement gains in other comprehensive income						
	1 January 2015	**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 2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Benefit obligations	(10,551)	(357)	(357)	240	209	721	961	1,891	10	(8,767)
Benefit liability	(10,551)	(357)	(357)	240	209	721	961	1,891	10	(8,767)

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$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
As at 1 January 2015	2,224	5,309	1,253	35,940	5,415	1,901	—	—	—	1,481	217	—	808	54,548
Credited/(charged) to profit or loss (note 11)	1,382	4,336	862	8,521	1,325	1,233	283	14,550	—	(1,481)	612	—	(78)	31,545
Translation adjustments	(619)	(457)	(106)	(449)	(367)	(160)	(4)	(48)	—	—	—	—	(49)	(2,259)
As at 31 December 2015 and 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
Translation adjustments	(116)	(698)	(128)	(578)	(272)	(201)	4	(1,689)	(46)	—	(2)	(11)	(17)	(3,754)
As at 31 December 2016	3,187	13,439	8,984	50,034	65,597	3,495	—	47,595	974	—	6,674	15,919	5,837	221,735

The Group has tax losses arising in Germany of nil (2015: HK$15,826,000) 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 the United States of HK$193,437,000 (2015: Nil) that will be expired in six to seventeen years for offsetting against future taxable profits.

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	Total
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
At 1 January 2015	(19,094)	(8,039)	(1,016)	(760)	—	—	—	(225,203)	(254,112)
Addition from acquisition	—	—	—	—	—	—	—	(6,267)	(6,267)
(Charged)/credited to profit or loss (note 11)	—	7,158	(1,386)	(6,380)	(2,690)	(62)	(120)	4,709	1,229
Translation adjustments	1,114	746	123	40	34	—	9	15,199	17,265
At 31 December 2015 and 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)
Translation adjustments	1,157	(2)	95	(39)	98	—	(9)	4,803	6,103
At 31 December 2016	(16,823)	—	(2,355)	(11,298)	(2,558)	—	—	(203,720)	(236,754)

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%.

Pursuant to the Board resolutions of GCPC, PCPC and GCPN, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2016 will not be appropriated to GBHK in 2016 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 2016.

At 31 December 2016, 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$921,959,000 at 31 December 2016 (2015: HK$763,838,000).

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

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:

	2016	2015
	(HK$'000)	*(HK$'000)*
Reflected in the consolidated statement of financial position:		
— Deferred tax assets	130,880	43,092
— Deferred tax liabilities	(145,899)	(201,141)

Deferred tax assets have not been recognised in respect of the following items:

	2016	2015
	(HK$'000)	*(HK$'000)*
Tax losses	68,591	248,161
Write-down of inventories	1,551	—
Accruals	1,334	—
Foreign tax credit	—	14,639
Provision	—	10,932
Post-retirement benefits	—	2,407
Others	3,279	2,416
	74,754	278,555

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$8,893,000 (2015: HK$6,578,000) arising from the acquisition of CBDK and employee worker injury compensation of HK$3,582,000 (2015: HK$3,999,000) of overseas subsidiaries.

32. SHARE CAPITAL

	As at 31 December 2016 *(HK$'000)*	As at 31 December 2015 *(HK$'000)*
Issued and fully paid:		
1,115,129,000 (2015: 1,108,598,000) ordinary shares	11,151	11,086

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 2015	1,100,972	11,010	1,183,406	1,194,416
Issuance of shares (note (a))	4,539	45	15,479	15,524
Share options exercised	3,087	31	9,193	9,224
Difference between proposed and declared 2014 dividend	—	—	—	—
At 31 December 2015 and 1 January 2016	1,108,598	11,086	1,208,078	1,219,164
Share options exercised (note (b))	6,531	65	19,447	19,512
Dividend	—	—	(55,679)	(55,679)
At 31 December 2016	1,115,129	11,151	1,171,846	1,182,997

Notes:

(a) On 27 January 2014, the Group acquired the entire issued share capital in Columbus Holding GmbH at a consideration of EUR70,711,539 (equivalent to approximately HK$751,070,000), to be settled in cash as to the amount of EUR38,513,000 (equivalent to approximately HK$409,070,000) and by the issue of 100,000,000 new shares to the Sellers as to the amount of EUR32,198,539 (equivalent to approximately HK$342,000,000). 95,460,700 new shares were issued to the Sellers on 30 January 2014. The remaining 4,539,300 shares were allotted and issued to the Sellers on 31 August 2015, at an issue price of HK$3.42 per rights share, resulting in the issue of 4,539,300 shares for a total cash consideration, before expenses, of HK$15,524,000.

(b) The subscription rights attached to 6,531,000 share options were exercised at the subscription price of HK$2.12 per share (note 33), resulting in the issue of 6,531,000 shares for a total cash consideration, before expenses, of HK$13,846,000. An amount of HK$5,666,000 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.

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

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

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

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

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

The following share options were outstanding under the Scheme during the year:

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

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

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

2016

Number of options '000	**Exercise price HK$ per share**	**Exercise period**
218	2.12	3 January 2014 to 2 January 2018
1,928	2.12	3 January 2015 to 2 January 2018
2,671	2.12	3 January 2016 to 2 January 2018
6,933	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		

2015

Number of options '000	**Exercise price HK$ per share**	**Exercise period**
384	2.12	3 January 2014 to 2 January 2018
4,020	2.12	3 January 2015 to 2 January 2018
7,060	2.12	3 January 2016 to 2 January 2018
7,214	2.12	3 January 2017 to 2 January 2018
11,160	3.58	29 September 2017 to 28 September 2024
19,080	3.58	29 September 2018 to 28 September 2024
13,160	3.58	29 September 2019 to 28 September 2024
8,617	3.75	7 October 2018 to 6 October 2025
8,617	3.75	7 October 2019 to 6 October 2025
8,617	3.75	7 October 2020 to 6 October 2025
87,929		

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

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

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

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

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

The 6,531,000 share options exercised during the year resulted in the issue of 6,531,000 ordinary shares of the Company and new share capital of HK$65,310 and share premium of HK$19,447,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 74,959,500 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 74,959,500 additional ordinary shares of the Company and additional share capital of HK$749,595 and share premium of HK$255,600,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 74,911,500 share options outstanding under the Scheme, which represented approximately 6.72% 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.

DEFERRED SHARES RESERVE

As stated in note 32 (a), pursuant to the sale and purchase agreement in relation to the acquisition of entire issued share capital in Columbus Holding GmbH, 95,460,700 new shares were issued to the Sellers on 30 January 2014. If no claims (any claim under or in connection with the aforesaid agreement) have been notified to the Sellers' representatives by 18 months following the completion date (as defined in the aforesaid agreement), the remaining 4,539,300 shares will be allotted and issued to the Sellers on the date which is 18 months following the completion date.

On 31 August 2015, the remaining 4,539,300 shares were issued to the Sellers.

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.

MERGER RESERVE

As at 31 December 2016, 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; and

(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.

35. OPERATING LEASE ARRANGEMENTS

AS LESSEE

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Within one year	75,826	37,523
After one year but not more than five years	69,535	68,872
	145,361	106,395

36. COMMITMENTS

In addition to the operating lease commitments disclosed in note 35 above, the Group had the following commitment as at the end of the reporting period:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Contracted, but not provided for, in respect of acquisition of:		
Property, plant and equipment	3,334	5,665

(B) OTHER COMMITMENT

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Upfront fee of a term loan facility	4,000	5,488

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facility of HK$760 million that was entered into between an overseas wholly-owned subsidiary and the financial institution, 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.

37. RELATED PARTY TRANSACTIONS AND BALANCES

(A) NAME AND RELATIONSHIP

Name of related party	Relationship with the Group
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
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

(B) RELATED PARTY TRANSACTIONS

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

	2016	2015
	(HK$'000)	*(HK$'000)*
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	778,977	870,245
Purchase of goods from a related party (note (b))		
GCCL#	44	306
Rental expenses to related parties (note (c))		
GGPX#	11,689	12,161
GGCL#	799	870
	12,488	13,031
Expenses paid on behalf of related parties (note (d))		
GCCL#	679	926
SGCP#	—	36
	679	962
Expenses paid by a related party (note (d))		
BRKH#	170	145

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.

(C) OUTSTANDING BALANCE WITH RELATED PARTIES

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Amount due from related parties:		
GRCN	284,368	303,758
SGCP	27	—
	284,395	303,758

The amount due from related parties is unsecured, interest-free and repayable in 120 days.

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Short term employee benefits	30,205	41,035
Equity-settled share option expense	6,739	6,062
Post-employment benefits	689	593
Total compensation paid to key management personnel	37,633	47,690

Further details of directors' remuneration are included in note 9 to the financial statements.

38. 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	
	2016	**2015**	**2016**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Financial assets				
Derivative financial instruments	—	421	—	421
Other long-term assets - call option over non-controlling interests	5,348	3,637	5,348	3,637
Available-for-sale investments	—	310,347	—	310,347
	5,348	314,405	5,348	314,405
Financial liabilities				
Put option over non-controlling interests	8,893	6,578	8,893	6,578
Interest-bearing bank loans and other borrowings	1,228,757	1,697,618	1,228,757	1,697,618
	1,237,650	1,704,196	1,237,650	1,704,196

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 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.

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 2016, 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 2016 and 2015:

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	2016: nil (2015: 1.49% to 4.00%)	5% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by nil/(nil) (2015: HK $19/(HK$19))

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

		Fair value measurement using		
	31 December 2016 *(HK$'000)*	**Quoted prices in active markets Level 1** *(HK$'000)*	**Significant observable inputs Level 2** *(HK$'000)*	**Significant unobservable inputs Level 3** *(HK$'000)*
Financial assets at fair value through profit or loss				
— Call option over non-controlling interests	5,348	—	—	5,348

		Fair value measurement using		
	31 December 2015	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Financial assets at fair value through profit or loss				
— Forward currency contracts	421	—	421	—
— Call option over non-controlling interests	3,637	—	—	3,637
Available-for-sale investments	310,347	—	—	310,347
	314,405	—	421	313,984

The movements in fair value measurements in Level 3 during the year are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
At 1 January	313,984	206,389
Remeasurement recognised in other income and gains	1,940	(5,849)
Purchases	2,681,062	1,240,449
Disposals	(2,985,063)	(1,109,105)
Exchange realignment	(6,575)	(17,900)
At 31 December	5,348	313,984

During the year ended 31 December 2016, 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 2015 and 2016.

Liabilities for which fair values are disclosed:

		Fair value measurement using		
	31 December 2016	**Quoted prices in active markets Level 1**	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'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

		Fair value measurement using		
	31 December 2015	**Quoted prices in active markets Level 1**	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Put option over non-controlling interests	6,578	—	—	6,578
Interest-bearing bank loans and other borrowings	1,697,618	—	1,697,618	—
	1,704,196		1,697,618	6,578

The movements in fair value measurements in Level 3 during the year are as follows:

	2016	**2015**
	(HK$'000)	*(HK$'000)*
At 1 January	6,578	—
Remeasurement recognised in other expense/(income and gains)	2,692	(13,164)
Purchase	—	21,943
Exchange realignment	(377)	(2,201)
At 31 December	8,893	6,578

39. 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 2016

	Financial assets at fair value through profit of loss *(HK$'000)*	**Loans and receivables** *(HK$'000)*	**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

As at 31 December 2015

	Financial assets at fair value through profit of loss *(HK$'000)*	**Available-for-sale financial assets** *(HK$'000)*	**Loans and receivables** *(HK$'000)*	**Total** *(HK$'000)*
Trade and notes receivables	—	—	695,599	695,599
Financial assets included in prepayments and other receivables (note 21)	—	—	93,595	93,595
Due from a related party	—	—	303,758	303,758
Available-for-sale investments	—	310,347	—	310,347
Derivative financial instruments	421	—	—	421
Other long-term assets (note 18)	3,637	—	—	3,637
Pledged time deposits	—	—	27,199	27,199
Time deposits	—	—	2,726	2,726
Cash and cash equivalents	—	—	705,921	705,921
	4,058	310,347	1,828,798	2,143,203

FINANCIAL LIABILITIES

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

As at 31 December 2015

	Financial liabilities at amortised cost *(HK$'000)*
Financial liabilities included in other payables, advances from customers and accruals (note 26)	84,574
Trade and bills payables	941,205
Interest-bearing bank loans and other borrowings	1,697,618
Other liabilities (note 31)	6,578
	2,729,975

40. 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$'000)	*(HK$'000)*
Year ended 31 December 2016	+5%/-5%	(2,758)/2,758
Year ended 31 December 2015	+5%/-5%	(3,023)/3,023

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.

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$, 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 *(HK$'000)*	**Increase/ (decrease) in profit before tax** *(HK$'000)*
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)
Year ended 31 December 2015		
If US$ strengthens against RMB	5%	4,514
If US$ weakens against RMB	-5%	(4,514)
If US$ strengthens against EUR	5%	1
If US$ weakens against EUR	-5%	(1)

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 8% (2015: 23%) of the Group's trade receivables were due from the Group's largest customer.

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 2016

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Interest-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

31 December 2015

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Interest-bearing bank loan and other borrowings	—	688,105	31,821	1,089,538	1,809,464
Trade and bills payables	227,891	713,314	—	—	941,205
Other liabilities	—	—	—	6,578	6,578
Other payables	84,574	—	—	—	84,574
	312,465	1,401,419	31,821	1,096,116	2,841,821

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, and other payables, advances from customers and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

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

	2016	**2015**
	(HK$'000)	*(HK$'000)*
Trade and bills payables	926,464	941,205
Other payables, advances from customers and accruals	557,925	463,929
Interest-bearing bank loans and other borrowings	1,228,757	1,697,618
Less: Cash and cash equivalents	(758,153)	(705,291)
Net debt	1,954,993	2,397,461
Equity attributable to owners of the parent	2,440,280	2,365,258
Capital and net debt	4,395,273	4,762,719
Gearing ratio	44%	50%

41. EVENT AFTER THE REPORTING PERIOD

There are no significant subsequent events after the end of the reporting period.

42. 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:

	2016	2015
	(HK$'000)	*(HK$'000)*
NON-CURRENT ASSETS		
Investments in subsidiaries	408,409	8,805
Investment in a joint venture	1,562	1,562
Total non-current assets	409,971	10,367
CURRENT ASSETS		
Other receivables	303	393
Due from subsidiaries	681,340	1,165,361
Cash and cash equivalents	2,800	2,769
Total current assets	684,443	1,168,523
CURRENT LIABILITIES		
Other payables	8,914	2,490
Payroll payable	72	—
Accrued expenses	90	—
Dividend payables	8	8
Due to a subsidiary	329	89
Total current liabilities	9,413	2,587
NET CURRENT ASSETS	675,030	1,165,936
TOTAL ASSETS LESS CURRENT LIABILITIES	1,085,001	1,176,303
Net assets	1,085,001	1,176,303
EQUITY		
Share capital	11,151	11,085
Reserves	1,073,850	1,165,218
Total equity	1,085,001	1,176,303

Note:

A summary of the Company's reserves is as follows:

	Share premium *(HK$'000)*	Deferred shares reserve *(HK$'000)*	Share option reserve *(HK$'000)*	Accumulated losses *(HK$'000)*	Total *(HK$'000)*
Balance at 31 December 2014 and 1 January 2015	1,183,406	15,524	20,873	(52,057)	1,167,746
Loss for the year	—	—	—	(21,710)	(21,710)
Deferred shares	15,479	(15,524)	—	(45)	
Share options exercised	9,193	—	(2,680)	—	6,513
Equity-settled share option arrangements	—	—	12,714	—	12,714
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
As at 31 December 2016	1,171,846	—	41,748	(139,744)	1,073,850

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

3. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2014, 2015, 2016 and the 6 months ended 30 June 2016 and 2017, as extracted from the annual reports of the Company for the years ended 31 December 2015 and 2016, the interim report of the Company for the 6 months ended 30 June 2016 and the interim results announcement of the Company for the 6 months ended 30 June 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
REVENUE	6,115,592	6,951,131	6,238,179	3,214,894	3,295,589
Cost of sales	(4,588,057)	(4,900,919)	(4,126,715)	(2,140,406)	(2,100,534)
Gross profit	1,527,535	2,050,212	2,111,464	1,074,488	1,195,055
Other income and gains	97,147	94,881	59,101	16,494	10,356
Selling and distribution expenses	(777,464)	(1,030,382)	(982,468)	(458,671)	(530,092)
Administrative expenses	(699,180)	(794,064)	(924,260)	(460,441)	(481,608)
Other expenses	(3,234)	(3,062)	(50,199)	(2,725)	(14,285)
Finance costs	(48,110)	(60,466)	(55,166)	(25,997)	(29,011)
Finance income	8,606	7,246	3,347	2,216	1,794
Share of losses of a joint venture	(31)	(30)	26	25	—
Share of losses of an associate	—	(8)	—	—	—
PROFIT BEFORE TAX	105,269	264,327	161,845	145,389	152,209
Income tax expense	(47,545)	(61,655)	50,395	(35,281)	(26,286)
PROFIT FOR THE YEAR/PERIOD	57,724	202,672	212,240	110,108	125,923
Attributable to:					
Owners of the parent	57,475	197,434	207,390	107,140	124,704
Non-controlling interests	249	5,238	4,850	2,968	1,219
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	57,724	202,672	212,240	110,108	125,923
Attributable to:					
Owners of the parent	57,475	197,434	207,390	107,140	124,704
Non-controlling interests	249	5,238	4,850	2,968	1,219
Earnings per share attributable to ordinary equity holders of the parent					
Basic					
For profit for the year/period	0.05	0.18	0.19	0.10	0.11
Diluted					
For profit for the year/period	0.05	0.18	0.19	0.10	0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PROFIT FOR THE YEAR/PERIOD	57,724	202,672	212,240	110,108	125,923
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	—	—	—	—	(24,181)
Reclassification adjustments for losses included in the consolidated statement of profit or loss	—	—	—	—	7,840
Income tax effect	—	—	—	—	2,451
	—	—	—	(13,890)	—
Exchange differences:					
Exchange differences on translation of foreign operations	(48,742)	(129,390)	(113,144)	(19,638)	92,617
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(48,742)	(129,390)	(113,144)	(19,638)	78,727
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial gains/(losses) of defined benefit plans	(6,511)	325	4,345	(2,893)	5,199
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	(6,511)	325	4,345	(2,893)	5,199

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	(55,253)	(129,065)	(108,799)	(22,531)	83,926
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	2,471	73,607	103,441	87,577	209,849
Attributable to:					
Owners of the parent	2,326	69,340	100,348	84,935	207,652
Non-controlling interests	145	4,267	3,093	2,642	2,197
	2,471	73,607	103,441	87,577	209,849

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Year ended 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	920,953	878,769	858,194	883,491
Prepaid land lease payments	65,449	59,608	53,895	54,425
Goodwill	837,717	819,619	811,662	834,088
Other intangible assets	711,909	682,256	655,866	689,404
Investment in a joint venture	927	844	814	840
Deferred tax assets	20,249	43,092	130,880	129,979
Other long-term assets	—	3,637	7,845	22,150
Total non-current assets	2,557,204	2,487,825	2,519,156	2,614,377
CURRENT ASSETS				
Inventories	1,535,271	1,244,756	1,099,846	1,255,482
Trade and notes receivables	973,309	695,599	644,440	737,801
Prepayments and other receivables	192,751	143,629	187,381	250,058
Due from related parties	379,152	303,758	284,395	456,034
Available-for-sale investments	206,389	310,347	—	39,603
Cash and cash equivalents	434,661	705,291	758,153	728,592
Time deposits	50,723	2,726	—	—
Pledged time deposits	165,807	27,199	25,367	117,429
Derivative financial instruments	26,797	421	—	—
Total current assets	3,964,860	3,433,726	2,999,582	3,584,999
CURRENT LIABILITIES				
Trade and notes payables	1,131,336	941,205	926,464	1,167,261
Other payables, advances from customers and accruals	433,370	463,929	557,925	587,384
Interest-bearing bank loans and other borrowing	1,496,078	691,700	278,236	727,301
Income tax payable	25,180	68,205	28,307	45,433
Provisions	21,088	37,353	63,928	32,197
Derivative financial liabilities	—	—	—	24,181
Defined benefit plan liabilities	310	465	388	390
Dividends payable	8	8	8	8
Total current liabilities	3,107,370	2,202,865	1,855,256	2,584,155
NET CURRENT ASSETS	857,490	1,230,861	1,144,326	1,000,844
TOTAL ASSETS LESS CURRENT LIABILITIES	3,414,694	3,718,686	3,663,482	3,615,221

	Year ended 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and borrowing	762,118	1,005,918	950,521	728,917
Provisions	83,192	78,732	63,708	61,197
Defined benefit plan liabilities	12,870	14,216	12,717	8,604
Other non-current liabilities	9,041	10,577	12,475	13,632
Deferred tax liabilities	219,813	201,141	145,899	154,936
Total non-current liabilities	1,087,034	1,310,584	1,185,320	967,286
Net assets	2,327,660	2,408,102	2,478,162	2,647,935
EQUITY				
Equity attributable to owners of the parent				
Share capital	11,010	11,086	11,151	11,196
Reserves	2,285,894	2,354,172	2,429,129	2,598,381
	2,296,904	2,365,258	2,440,280	2,609,577
Non-controlling interests	30,756	42,844	37,882	38,358
Total equity	2,327,660	2,408,102	2,478,162	2,647,935

4. INDEBTEDNESS STATEMENT

As at the close of business on 31 July 2017, being the latest practicable date for this statement of indebtedness prior to the printing of this circular, the Group had the following indebtedness:

	The Group *HK$'000*	The Target Group *HK$'000*	The Enlarged Group *HK$'000*
Bank loans and other borrowing	1,535,316	—	1,535,316

Analysed into:

	The Group *HK$'000*	The Target Group *HK$'000*	The Enlarged Group *HK$'000*
Current			
Bank loans — secured (note a)	302,380	—	302,380
Bank loans — unsecured	138,059	—	138,059
Bank overdraft — unsecured	115,638	—	115,638
Current portion of long-term bank loans — secured (note a)	287,671	—	287,671
Other borrowing (note b)	625	—	625
	844,373	—	844,373
Non-current			
Bank loans — secured (note a)	689,069	—	689,069
Other borrowing (note b)	1,874	—	1,874
	690,943	—	690,943
	1,535,316	—	1,535,316

Note:

(a) As of 31 July 2017, certain of the bank loans were secured by:

(i) The pledge of shares of certain Group's subsidiaries;

(ii) A standby letter of credit from the Bank of China Suzhou branch and HSBC Suzhou branch issued by a subsidiary of the Group; and

(iii) Intra-group trade receivables of approximately HK$102,302,000 and these trade receivables were eliminated on the group level.

(b) The other borrowing was from local authority.

Except as aforesaid, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 31 July 2017.

5. MATERIAL CHANGE

On 24 July 2017, the Company and Goodbaby China Holdings Limited (the "Vendor") entered into an acquisition agreement, pursuant to which the Company has conditionally agreed to acquire the sale share, being the entire issued share capital of Oasis Dragon Limited, from the Vendor at a consideration of US$360.0 million, subject to adjustment (the "Acquisition"). The Acquisition, which will be financed by the issue of the consideration shares, bank loans and internal resources, would allow the Group to further broaden its product portfolio from its existing durable juvenile products into MBC Products and to expand its existing businesses to include the downstream distribution and retail of MBC Products in the PRC.

Save as disclosed above, the Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, in the absence of unforeseeable circumstances, the Group's present internal resources and available banking facilities, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

7. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the design, research and development, manufacture, marketing and sales of durable juvenile products. As disclosed in the Annual Report, the Group recorded a total revenue of approximately HK$6,238.2 million for the year ended December 31 2016, representing an decrease of approximately 10.3% as compared with last year. The decrease was mainly attributable to the expected decrease of sales from the largest Blue-Chip customer due to the transformation of the Group's business model from OEM-driven business to brand-driven business and the optimization actions to phase out certain low profitability business. The decrease was also partly driven by the decrease of Group's own brands sales in China due to decrease of sales in Happy Dino brand. The Group turned around the revenue in the China market from 24.7% decline in the first half of 2016 to 2.9% growth in the second half of 2016.

The Group continues to implement the BOOM strategy which integrates branding with online and offline retail in order to provide customer value-add services and convenient shopping experience while promoting its brands directly and effectively. The management believes that integration of the online and offline retail channel of the Target Company will enable the Group to capture the growth opportunity in China market and enable it to gain access to end customers and better execute the BOOM strategy. More importantly, as mentioned in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION", the management consider that the non-durable MBC products developed by the Target Company are expected to enable the Group tap into the non-durable MBC product market which has much larger addressable market, higher multi-product category growth and better profitability potentials.

The Directors
Goodbaby International Holdings Limited

Dear Sirs,

We report on the historical financial information of Oasis Dragon Limited ("Oasis Dragon") and its subsidiaries (together, the "Oasis Dragon Group") set out on pages IIa-4 to IIa-72,which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Oasis Dragon Group for each of the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2017 (the "Relevant Periods"), and the consolidated statements of financial position of the Oasis Dragon Group as at 31 December 2014, 2015 and 2016 and 30 June 2017 and the statements of financial position of Oasis Dragon as at 31 December 2015 and 2016 and 30 June 2017 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIa-4 to IIa-72 forms an integral part of this report, which has been prepared for inclusion in the circular of Goodbaby International Holdings Limited (the "Company") dated 4 September 2017 (the "Circular") in connection with the Company's proposed acquisition (the "Proposed Acquisition") of the entire equity interests of Oasis Dragon.

Directors' responsibility for the Historical Financial Information

The directors of Goodbaby China Holdings Limited ("Goodbaby China") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Oasis Dragon Group as at 31 December 2014, 2015 and 2016 and 30 June 2017 and Oasis Dragon as at 31 December 2015 and 2016 and 30 June 2017, and of the financial performance and cash flows of the Oasis Dragon Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of Oasis Dragon Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2016 and other explanatory information (the "Interim Comparative Financial Information"). The directors of Goodbaby China are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review,nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by Oasis Dragon in respect of the Relevant Periods.

No historical financial statements for Oasis Dragon

As at the date of this report, no statutory financial statements have been prepared for Oasis Dragon since its date of incorporation.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong
4 September 2017

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Oasis Dragon Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	**2014**	**2015**	**2016**	**2016**	**2017**
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(Unaudited)*	*(RMB'000)*
REVENUE	6	1,678,738	1,854,631	1,937,395	920,669	1,205,911
Cost of sales		(966,981)	(1,064,686)	(1,121,391)	(527,565)	(687,590)
Gross profit		711,757	789,945	816,004	393,104	518,321
Other income and gains	6	10,624	9,599	7,432	2,125	3,247
Selling and distribution expenses		(540,821)	(579,167)	(593,030)	(293,888)	(343,622)
Administrative expenses		(52,305)	(69,040)	(75,917)	(45,536)	(31,851)
Other expenses		(5,229)	(3,883)	(4,585)	(1,604)	(1,408)
Finance costs	7	(14,931)	(11,614)	(13,646)	(9,213)	—
PROFIT BEFORE TAX	8	109,095	135,840	136,258	44,988	144,687
Income tax expense	11	(28,410)	(34,246)	(35,459)	(12,096)	(37,177)
PROFIT FOR THE YEAR/ PERIOD		80,685	101,594	100,799	32,892	107,510
Attributable to:						
Owners of the parent		80,390	100,419	100,624	32,719	106,663
Non-controlling interests		295	1,175	175	173	847
		80,685	101,594	100,799	32,892	107,510
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13					
Basic and diluted		N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2014 *(RMB'000)*	2015 *(RMB'000)*	2016 *(RMB'000)*	As at 30 June 2017 *(RMB'000)*
NON-CURRENT ASSETS					
Property, plant and equipment	14	44,564	39,464	44,978	39,049
Goodwill		1	1	1	1
Other intangible assets	15	942	747	454	1,068
Deferred tax assets	23	6,726	4,554	14,117	16,509
Total non-current assets		52,233	44,766	59,550	56,627
CURRENT ASSETS					
Inventories	16	261,934	265,562	285,218	305,350
Trade and notes receivables	17	130,481	156,856	201,846	270,721
Prepayments, deposits and other receivables	18	51,389	55,942	44,151	44,097
Amounts due from related parties	29	314,070	400,511	17,102	209,093
Cash and cash equivalents	19	20,707	62,104	19,375	56,533
Total current assets		778,581	940,975	567,692	885,794
CURRENT LIABILITIES					
Trade payables	20	86,575	92,345	109,088	108,720
Other payables and accruals	21	96,517	89,985	160,101	211,144
Amounts due to related parties	29	307,101	262,609	254,999	414,529
Interest-bearing bank borrowings	22	115,000	110,000	—	—
Tax payable		623	363	28,867	39,405
Total current liabilities		605,816	555,302	553,055	773,798
NET CURRENT ASSETS		172,765	385,673	14,637	111,996
TOTAL ASSETS LESS CURRENT LIABILITIES		224,998	430,439	74,187	168,623
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	22	49,000	150,000	—	—
Deferred tax liabilities	23	1,423	1,430	1,462	—
Total non-current liabilities		50,423	151,430	1,462	—
Net assets		174,575	279,009	72,725	168,623
EQUITY					
Equity attributable to owners of the parent					
Share capital	24	—	—	—	—
Reserves	25	163,979	264,398	57,938	152,990
Non-controlling interests		10,596	14,611	14,787	15,633
Total equity		174,575	279,009	72,725	168,623

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of Oasis Dragon					
	Share capital	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
As at 1 January 2014	—	1,363	82,226	83,589	—	83,589
Profit for the year	—	—	80,390	80,390	295	80,685
Transfer from retained profits	—	62	(62)	—	—	—
Acquisition of a subsidiary	—	—	—	—	500	500
Contributions from non-controlling interests	—	—	—	—	9,801	9,801
As at 31 December 2014 and 1 January 2015	—	1,425	162,554	163,979	10,596	174,575
Profit for the year	—	—	100,419	100,419	1,175	101,594
Transfer from retained profits	—	292	(292)	—	—	—
Acquisition of a subsidiary	—	—	—	—	(500)	(500)
Contributions from non-controlling interests	—	—	—	—	3,340	3,340
As at 31 December 2015 and 1 January 2016	—	1,717	262,681	264,398	14,611	279,009
Profit for the year	—	—	100,624	100,624	175	100,799
Transfer from retained profits	—	7,084	(7,084)	—	—	—
Deemed distribution	—	—	(307,084)	(307,084)	—	(307,084)
Contributions from non-controlling interests	—	—	—	—	1	1
As at 31 December 2016 and 1 January 2017	—	8,801	49,137	57,938	14,787	72,725
	—	—	—	—	—	—
As at 31 December 2016 and 1 January 2017	—	8,801	49,137	57,938	14,787	72,725
Profit for the period	—	—	106,664	106,664	846	107,510
Transfer from retained profits	—	10,896	(10,896)	—	—	—
Deemed distribution	—	—	(10,000)	(10,000)	—	(10,000)
Dividend distribution	—	—	(1,612)	(1,612)	—	(1,612)
As at 30 June 2017	—	19,697	133,293	152,990	15,633	168,623
As at 31 December 2015 and 1 January 2016	—	1,717	262,681	264,398	14,611	279,009
Profit for the period (Unaudited)	—	—	32,719	32,719	173	32,892
Transfer from retained profits(Unaudited)	—	26	(26)	—	—	—
As at 30 June 2016 (Unaudited)	—	1,743	295,374	297,117	14,784	311,901

* *These reserve accounts comprise the consolidated other reserves of RMB163,979,000, RMB264,398,000, RMB57,938,000, RMB297,117,000 and RMB152,990,000 in the combined statement of financial position as of 31 December 2014, 2015, 2016, 30 June 2016 and 30 June 2017, respectively.*

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2014	2015	2016	2016	2017
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(Unaudited)*	*(RMB'000)*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		109,095	135,840	136,258	44,988	144,687
Adjustments for:						
Finance costs	7	14,931	11,614	13,646	9,213	—
Interest income	6	(102)	(34)	(45)	(14)	(49)
Depreciation of items of property, plant and equipment	8	22,830	23,699	24,596	12,433	12,047
Amortization of other intangible assets	8	234	280	293	146	157
(Gain)/loss on disposal of items of property, plant and equipment		(63)	24	—	—	—
Provision for/(reversal of) impairment of inventories		13,214	(563)	1,280	(1,032)	423
(Reversal of)/ provision for impairment of receivables		482	(560)	—	—	—
(Increase)/decrease in inventories		(53,875)	(3,065)	(20,936)	(22,301)	(20,555)
(Increase)/decrease in trade and notes receivables		(23,236)	(25,815)	(44,990)	(38,302)	(68,875)
(Increase)/decrease in prepayments, deposits and other receivables		(24,395)	(4,553)	11,791	1,957	54
Increase/(decrease) in trade payables		33,214	5,770	16,743	12,830	(368)
Increase/(decrease) in other payables and accruals		6,177	(6,532)	70,116	33,548	49,581
Increase/(decrease) in amounts due to related parties		(5,061)	(44,492)	(7,610)	83,383	159,531
Cash generated from operations		93,445	91,613	201,142	136,849	276,633
Interest received		102	34	45	14	49
Income tax paid		(29,148)	(32,327)	(16,486)	(18,518)	(29,031)
Net cash flows from/(used in) operating activities		64,339	59,320	184,701	118,345	247,651

	Notes	Year ended 31 December 2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	Six months ended 30 June 2016 (RMB'000) (Unaudited)	2017 (RMB'000)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from disposal of items of property, plant and equipment		63	—	208	—	37
Purchases of items of property, plant and equipment		(32,695)	(18,623)	(30,318)	(13,848)	(6,155)
Purchases of other intangible assets		(673)	(85)	—	—	(771)
Acquisition of a subsidiary	26	253	—	—	—	—
Advances to related parties		(33,727)	(86,441)	(180,000)	(133,708)	(203,604)
Repayment of advances to related parties		—	—	—	—	—
Net cash flows (used in)/from investing activities		(66,779)	(105,149)	(210,110)	(147,566)	(210,493)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		325,000	211,000	30,000	30,000	—
Repayment of bank loans		(340,600)	(115,000)	(110,000)	—	—
Advances from related parties		—	—	75,895	—	—
Acquisition of non-controlling interest		—	(500)	—	—	—
Interest paid		(14,931)	(11,614)	(13,215)	(9,213)	—
Capital contributions by non-controlling shareholders		9,801	3,340	—	—	—
Net cash flows from/(used in) financing activities		(20,730)	87,726	(17,320)	20,787	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(23,110)	41,397	(42,729)	(8,424)	37,158
Cash and cash equivalents at beginning of year/ period		43,817	20,707	62,104	62,104	19,375
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD		20,707	62,104	19,375	53,680	56,533

STATEMENT OF FINANCIAL POSITION OF OASIS DRAGON

	As at 31 December		As at 30 June
	2015	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
CURRENT ASSETS			
Total current assets	—	—	—
Total current liabilities	—	—	—
TOTAL ASSETS LESS CURRENT LIABILITIES	—	—	—
Net assets	—	—	—
EQUITY			
Equity attributable to owners of the parent			
Share capital	—	—	—
Total equity	—	—	—

I. NOTES TO THE HISTORICAL FINANCIAL INFORMAITON

1. CORPORATE INFORMATION

Oasis Dragon Limited is a limited liability company incorporated as an exempted company under the Companies Law of the Independent State of Samoa ("Samoa") on 13 November 2015. The registered office address of Oasis Dragon is Vistra Corporate Services Centre, Ground Floor NPF Buidling, Beach Road, Apia, Samoa .

Oasis Dragon is an investment holding company. Oasis Dragon Group was a member of the group of Goodbaby China and its subsidiaries ("GBC Group"). Goodbaby China is the holding company of GBC Group which engages in the sale of maternity, baby and children's products ("MBC Products").

During the Relevant Periods, Oasis Dragon Group was principally engaged in the retail business of MBC Products under Goodbaby Brands (the "GB Business").

In the opinion of Goodbaby China's directors (the "Directors"), the ultimate holding company of Oasis Dragon is Goodbaby China.

Prior to the incorporation of Oasis Dragon, the GB Business was carried out by certain subsidiaries of GBC Group. In order to rationalize the structure of GB Business, a business transfer agreement was entered into between Goodbaby China Commercial Limited ("GCCL") ,a subsidiary of Goodbaby China, and Oasis Dragon, pursuant to which the GB Business formerly operated by the GB Business division of GCCL was transferred to certain subsidiary now comprising Oasis Dragon Group, and the equity interest of certain subsidiaries of GBC Group involved in GB Business was also transferred to Oasis Dragon Group (the "Reorganisation"). The Reorganization was completed on 9 June 2017.

The GB Business of GCCL did not exist as a legal or statutory entity and no separate statutory accounts were therefore prepared. The financial information of the GB Business of GCCL has been prepared to reflect the historical results of operations and the historical assets and liabilities of the GB business of GCCL.

As at the date of this report, Oasis Dragon had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/registered share capital	Percentage of equity interest attributable to Oasis Dragon Direct	Indirect	Principal activities
Goodbaby (China) Retail & Service Company("GRCN") (b)	The People's Republic of China ("PRC") 11 June 2010	US$40,000,000	—	100%	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS") (b)	PRC 20 January 1998	RMB10,000,000	—	100%	Distribution and retail business of children's products

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/registered share capital	Percentage of equity interest attributable to Oasis Dragon		Principal activities
			Direct	Indirect	
Goodbaby E-family Co., Ltd. ("GBEF") (b)	PRC 25 February 2016	RMB9,200,000	—	86.96%	Wholesale and retail of children's products
Goodbaby (Shangqiu) Commercial Co., Ltd. ("GCSQ") (b)	PRC 26 March 2014	RMB6,000,000	—	51%	Wholesale and retail of children's products
Goodbaby (Fuyang) Commercial Co., Ltd. ("GCFY") (b)	PRC 27 January 2014	RMB10,000,000	—	51%	Wholesale and retail of children's products
Goodbaby (Qingdao) Commercial Co., Ltd. ("GCQD") (b)	PRC 20 May 2014	RMB10,000,000	—	51%	Wholesale and retail of children's products
Qingdao Maicheche Children Products Co., Ltd. ("QMCP") (c)	PRC 1 September 2010	RMB3,000,000	—	51%	Wholesale and retail of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS") (a)	PRC 19 March 2015	RMB10,000,000	—	80%	Wholesale and retail of children's products
Goodbaby Retail & Service Holdings Co., Ltd. ("GRHK") (d)	Hong Kong 11 June 2016	HKD1	100%	—	Investment Holding

Notes:

(a) No audited financial statements for the year ended 31 December 2014 have been prepared for these entities as these entities were newly incorporated in 2015. The statutory financial statements of these entities for the year ended 31 December 2015 and 2016 were audited by Ernst & Young Hua Ming LLP Shanghai Branch, certified public accountants registered in the PRC.

(b) The statutory financial statements of these entities for the years ended 31 December 2014, 2015 and 2016 were audited by Ernst & Young Hua Ming LLP Shanghai Branch, certified public accountants registered in the PRC.

(c) The statutory financial statements of this entity for the year ended 31 December 2014, 2015 and 2016 were audited by Qingdao Maosheng Accounting Firm, certified public accountants registered in the PRC.

(d) No statutory accounts have been prepared for these subsidiaries since their incorporation as there is no statutory requirement for these companies to prepare audited financial statements.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, Oasis Dragon became the holding company of the companies now comprising Oasis Dragon Group. The companies now comprising Oasis Dragon Group were under the common control of the Goodbaby China before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods and as if the GB Business was transferred to Oasis Dragon Group as of the earliest period presented.

The consolidated statements of profit or loss, and other comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows of Oasis Dragon Group for the Relevant Periods include the results and cash flows of all companies now comprising Oasis Dragon Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Goodbaby China, where this is a shorter period. The consolidated statements of financial position of Oasis Dragon Group as at 31 December 2014, 2015, 2016 and 30 June 2017 have been prepared to present the assets and liabilities of GB Business using the existing book values from the Goodbaby China' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

Non-controlling interests represent the interests of outside shareholders not held by Oasis Dragon Group in the results and net assets of Oasis Dragon's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

2.2 BASIS OF PREPARATION

The Historical Financial Information for the Relevant Periods has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). All IFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by Oasis Dragon Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information for the Relevant Periods has been prepared under the historical cost convention. The Historical Financial Information for the Relevant Periods is expressed in Renminbi (RMB) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.3 ISSUED BUT NOT YET EFFETCIVE IFRSS

Oasis Dragon Group has not adopted the following new and revised IFRSs that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
IFRS 9	Financial Instruments[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 40	*Transfer of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements 2014-2016 Cycle	Amendments to a number of IFRSs[5]

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

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

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

4 No mandatory effective date determined but available for adoption

5 Effective for annual periods beginning on or after 1 January 2018, except for the amendments to IFRS 12, which are effective for annual periods beginning on or after 1 January 2017

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

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

IFRS 9 Financial Instruments

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. Oasis Dragon Group expects to adopt IFRS 9 from 1 January 2018. During 2016, Oasis Dragon Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to Oasis Dragon Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarized as follows:

(a) ***Classification and measurement***

Oasis Dragon 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 Oasis Dragon 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 derecognized.

(b) ***Impairment***

IFRS 9 requires an impairment on debt instruments recorded at amortized 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. Oasis Dragon Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. Oasis Dragon 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.

The amendments address the conflict between IFRS 10 and in IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 15 and Clarifications to IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a 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 new standard revenue will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Oasis Dragon Group does not plan to early adopt IFRS 15. The management of Oasis Dragon Group is in the process of making an assessment of the potential impact of the application of IFRS 15 and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the detailed review is performed by Oasis Dragon Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, IFRIC 15 Operating Leases — Incentives and IFRIC 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 account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less). 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). Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events.(e.g., a change in the lease term, a 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 remeasurement 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 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transaction provisions permit certain reliefs. Oasis Dragon Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption. Based on the Oasis Dragon Group's undiscounted operating lease commitments of 62,423,000, 107,673,000 and 117,105,000 as at 31 December 2014, 2015 and 2016 respectively as set out in note 27. the adoption is expected to have an impact on the financial position and financial performance of Oasis Dragon Group and the detailed assessment is still in progress.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by Oasis Dragon. Control is achieved when Oasis Dragon 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 Oasis Dragon Group the current ability to direct the relevant activities of the investee).

When Oasis Dragon has, directly or indirectly, less than a majority of the voting or similar rights of an investee, Oasis Dragon 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) Oasis Dragon Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Oasis Dragon's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. Oasis Dragon's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by Oasis Dragon Group, liabilities assumed by Oasis Dragon Group to the former owners of the acquiree and the equity interests issued by Oasis Dragon Group in exchange for control the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When Oasis Dragon 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 measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of Oasis Dragon 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, recognized 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. Oasis Dragon 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 Oasis Dragon 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 Oasis Dragon Group are assigned to those units or groups of unites.

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 recognized. An impairment loss recognized 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

Oasis Dragon Group measures its available-for-sale 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 Oasis Dragon 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.

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

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized 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 recognized in the Historical Financial Information on a recurring basis, Oasis Dragon Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred assets, financial assets and assets of a disposal group classified as held for sale), 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 recognized 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 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 of the Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to Oasis Dragon 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 Oasis Dragon Group;

(ii) has significant influence over Oasis Dragon Group; or

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

or

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

(i) the entity and Oasis Dragon 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 Oasis Dragon 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 Oasis Dragon Group or an entity related to Oasis Dragon Group;

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

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

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

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, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized 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, Oasis Dragon Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	9%-18%
Motor vehicles	18%-31.67%
Furniture and fixtures	9%-31.67%
Leasehold improvements	20%-50%

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

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

Construction in progress 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.

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 their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category that is consistent with the function of the intangible assets.

Computer software

Expenditure on computer software is capitalized and amortized using the straight-line method over its estimated useful life of five years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Leases

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified as loans and receivables at initial recognition. When financial assets are recognized 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 recognized on the trade date, that is, the date that Oasis Dragon 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:

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 amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in profit or loss. The loss arising from impairment is recognized in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

- Oasis Dragon 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) Oasis Dragon Group has transferred substantially all the risks and rewards of the asset, or (b) Oasis Dragon Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Oasis Dragon Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Oasis Dragon Group's continuing involvement in the asset. In that case, Oasis Dragon Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Oasis Dragon 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 Oasis Dragon Group could be required to repay.

Impairment of financial assets

Oasis Dragon Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or Oasis Dragon 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 reorganization 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 amortized cost

For financial assets carried at amortized cost, Oasis Dragon Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Oasis Dragon 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, recognized 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 yet 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 amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to Oasis Dragon 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 recognized, the previously recognized 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 profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

Oasis Dragon Group's financial liabilities include trade payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, trade payables, other payables, amounts due to related parties and interest-bearing bank borrowings are subsequently measured at amortized 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 recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized 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 amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realizable 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 realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognized 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 profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized 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 year, taking into consideration interpretations and practices prevailing in the countries in which Oasis Dragon 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 recognized for all taxable temporary differences, except:

- where 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 where 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 recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, 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, deferred tax assets are only recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized 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 recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Oasis Dragon 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 Oasis Dragon 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, when the service has been provided;

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

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

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

Other employee benefits

Pension scheme

The employees of Oasis Dragon Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme managed by the local municipal government. The subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. Oasis Dragon Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use of sale are capitalized as part of the cost of the respective assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because Oasis Dragon's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Historical Financial Information 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 each 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

Oasis Dragon 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 Oasis Dragon 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.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Details of unrecognized tax losses at the end of each reporting period are contained in note 23.

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables. Where the actual outcome is different from the original estimate, actual write-offs will be higher than estimated. Further details are contained in note 17.

Provision for slow-moving inventories

Provision for slow-moving inventories is made based on the ageing analysis and estimated net realizable value of inventories. The assessment of the provision amount requires involvement of management judgement and estimates. Where the actual outcome is different from the original estimate, such difference will impact the carrying value of inventories and provision charge/write back in the period in which such an estimate has been changed. Further details are contained in note 16.

5. OPERATING SEGMENT INFORMATION

For management purposes, Oasis Dragon Group is organized into business units based on their sales networks and has three types of reportable products as follows:

(a) Durable juvenile products: includes sales of strollers children's car safety seats, cribs, bicycles and tricycles and other durable juvenile products.

(b) Maternity and baby-care products: includes nursing, feeding and personal care products such as diapers, pacifiers, bottles, tableware, skincare, toiletries, baby wipes, small appliance, and skincare products, shampoo and hygiene products.

(c) Apparel products: includes apparel for infants and toddlers (0-4 years old) and children (5-8 years old) as well as home textile products such as bedding and accessories.

Management monitors the results of Oasis Dragon 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 profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax from continuing operations is measured consistently with Oasis Dragon Group's profit before tax except that other income and gains as well as head office and corporate expenses are excluded from such measurement.

Year ended 31 December 2014	Durable juvenile products (RMB'000)	Maternity and baby-care products (RMB'000)	Apparel products (RMB'000)	Total (RMB'000)
Segment revenue:				
Sales to external customers	970,474	412,136	296,128	1,678,738
Segment results	26,885	103,183	37,117	167,185
Reconciliation:				
Other income and gains				10,624
Corporate and other unallocated expenses				(48,554)
Other expenses				(5,229)
Finance costs				(14,931)
Profit before tax				109,095
Other segment information:				
Costs of goods sold	656,365	204,102	106,514	966,981

Year ended 31 December 2015	Durable juvenile products (RMB'000)	Maternity and baby-care products (RMB'000)	Apparel products (RMB'000)	Total (RMB'000)
Segment revenue:				
Sales to external customers	1,086,607	486,613	281,411	1,854,631
Segment results	24,486	126,840	30,941	182,267
Reconciliation:				
Other income and gains				9,599
Corporate and other unallocated expenses				(40,529)
Other expenses				(3,883)
Finance costs				(11,614)
Profit before tax				135,840
Other segment information:				
Cost of good sold	734,979	236,131	93,576	1,064,686

Year ended 31 December 2016	Durable juvenile products *(RMB'000)*	Maternity and baby-care products *(RMB'000)*	Apparel products *(RMB'000)*	Total *(RMB'000)*
Segment revenue:				
Sales to external customers	1,057,786	578,670	300,939	1,937,395
Segment results	25,957	150,052	11,912	187,921
Reconciliation:				
Other income and gains				7,432
Corporate and other unallocated expenses				(40,864)
Other expenses				(4,585)
Finance costs				(13,646)
Profit before tax				136,258
Other segment information:				
Cost of goods sold	714,078	286,669	120,644	1,121,391

For the six months ended 30 June 2017	Durable juvenile products *(RMB'000)*	Maternity and baby-care products *(RMB'000)*	Apparel products *(RMB'000)*	Total *(RMB'000)*
Segment revenue:				
Sales to external customers	630,802	376,446	198,663	1,205,911
Segment results	26,237	106,170	27,556	159,963
Reconciliation:				
Other income and gains				3,247
Corporate and other unallocated expenses				(17,115)
Other expenses				(1,408)
Finance costs				—
Profit before tax				144,687
Other segment information:				
Cost of goods sold	422,344	184,973	80,273	687,590

For the six months ended 30 June 2016	Durable juvenile products (RMB'000)	Maternity and baby-care products (RMB'000)	Apparel products (RMB'000)	Total (RMB'000)
Segment revenue:				
Sales to external customers	508,729	272,423	139,517	920,669
Segment results	10,167	67,263	5,241	82,671
Reconciliation:				
Other income and gains				2,125
Corporate and other unallocated expenses				(28,991)
Other expenses				(1,604)
Finance costs				(9,213)
Profit before tax				44,988
Other segment information:				
Cost of goods sold	340,284	133,854	53,427	527,565

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also Oasis Dragon Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties.

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

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
				(unaudited)	
Revenue					
Sales of goods	1,678,738	1,854,631	1,937,395	920,669	1,205,911
Other income and gains					
Service fee income (Note (a))	801	144	1,553	46	1,266
Insurance and other claims	—	186	562	—	—
Sales of materials	1,680	3,319	3,409	1,725	1,267
Bank interest income	102	34	45	14	49
Government grants (Note (b))	7,660	5,767	1,489	66	504
Exchange gain, net	—	44	—	—	—
Gross rental income	—	1	—	—	—
Others	381	104	374	274	161
Total	10,624	9,599	7,432	2,125	3,247

Note (a): Service fee income represents revenue earned relating to sales distribution and maintenance.

Note (b): The amount represents rental subsidy and other subsidies received from local governments. The amount of such government grants is determined solely at the discretion of the relevant government authorities and there is no assurance that Oasis Dragon Group will continue to receive the government grants in the future. There were no unfulfilled conditions or contingencies attaching to these grants.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
				(unaudited)	
Interest on bank loans wholly repayable within five years	14,931	11,614	13,646	9,213	—

8. PROFIT BEFORE TAX

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

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Cost of inventories sold	968,496	1,066,875	1,125,107	528,995	688,619
Depreciation of items of property, plant and equipment	22,830	23,699	24,596	12,433	12,047
Amortization of other intangible assets	234	280	293	146	157
Minimum lease payments under operating leases	27,249	38,410	39,444	21,954	20,492
IPO related expense	—	10,368	14,715	14,715	—
Employee benefit expense (including director's remuneration)					
Wages and salaries	221,352	225,237	233,933	118,835	132,823
Pension scheme contributions	15,693	15,998	16,028	8,918	8,395
	237,045	241,235	249,961	127,753	141,218
(Reversal of)/ provision for impairment of receivables	482	(560)	—	—	—
(Reversal of)/ provision for impairment of inventories	13,214	(563)	1,280	(1,032)	423
Gain on disposal of items of property, plant and equipment	(63)	24	—	—	—
Bank interest income	102	34	45	14	49

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Song Zhenghuan was appointed as sole director of the Oasis Dragon on 11 April 2016, and he was also appointed as the director of Goodbaby International Holdings Limited on 14 July 2000.

Mr. Song Zhenghuan received remuneration from the subsidiaries now comprising Oasis Dragon Group for his appointment as director of these subsidiaries. The remuneration of director is set out below:

(a) Independent non-executive directors

No independent non-executive director was appointed and there were no fees and other emoluments payable to the independent non-executive director during the Relevant Periods.

(b) Executive director

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	—	—	1,509	754	754
	—	—	1,509	754	754

	Year ended 31 December 2014				
	Fees	Salaries, allowances and benefits in kind	Pension Scheme Contributions	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Song Zhenghuan. . . .	—	—	—	—	—
	—	—	—	—	—

	Year ended 31 December 2015				
	Fees	Salaries, allowances and benefits in kind	Pension Scheme Contributions	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Song Zhenghuan. . . .	—	—	—	—	—
	—	—	—	—	—

	Year ended 31 December 2016				
	Fees	Salaries, allowances and benefits in kind	Pension Scheme Contributions	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Song Zhenghuan. . . .	—	1,509	—	—	1,509
	—	1,509	—	—	1,509

	Six months ended 30 June 2017				
	Fees	Salaries, allowances and benefits in kind	Pension Scheme Contributions	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Song Zhenghuan. . . .	—	754	—	—	754
	—	754	—	—	754

	Six months ended 30 June 2016 (unaudited)				
	Directors' fees	Salaries, allowances and benefits in kind	Pension Scheme Contributions	Equity-settled share option expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Song Zhenghuan. . . .	—	754	—	—	754
	—	754	—	—	754

10. FIVE HIGHEST PAID EMPLOYEES

Details of the 5 highest paid employees for the Relevant Periods and the six months ended 30 June 2016 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Salaries, allowances and benefits in kind	8,895	6,867	7,764	4,381	3,838
Pension scheme contributions	85	118	180	88	92
	8,980	6,985	7,944	4,469	3,930

The number of the five highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Nil to RMB1,000,000	2	2	—	4	4
RMB1,000,001 to RMB1,500,000	1	2	3	1	1
RMB1,500,001 to RMB2,000,000	1	—	1	—	—
RMB2,000,001 to RMB3,000,000	2	1	1	—	—
	5	5	5	5	5

11. INCOME TAX

Oasis Dragon Group is subject to income tax on an entity basis on profits arising in or derived from the countries/jurisdictions in which members of Oasis Dragon Group are domiciled and operate.

Pursuant to the rules and regulations of Samoa, Oasis Dragon Group is not subject to any income tax in those jurisdictions.

No provision for Hong Kong profits tax has been made as Oasis Dragon Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The provision for Mainland China corporate income tax is based on the statutory rate of 25% of the assessable profits of the subsidiaries of Oasis Dragon Group operating in Mainland China as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

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

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Current income tax — Mainland China	29,771	32,067	44,990	18,732	39,569
Deferred tax (note 23)	(1,361)	2,179	(9,531)	(6,636)	(2,392)
Total tax (credit)/charge for the year/period	28,410	34,246	35,459	12,096	37,177

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate are as follows:

	Year ended 31 December						Six months ended 30 June			
	2014		2015		2016		2016		2017	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%	*(RMB'000)* *(unaudited)*	%	*(RMB'000)*	%
Profit before tax	109,095		135,840		136,258		44,988		144,687	
Tax at the statutory tax rate	27,274	25.0	33,960	25.0	34,065	25.0	11,247	25.0	36,172	25.0
Effect of withholding tax at 10% on the distributable profits of Oasis Dragon Group's PRC subsidiaries	—		7	0.0	32	0.0	—	—	—	—
Tax losses utilized	—		(167)	(0.1)	(30)	(0.0)	(161)	(0.4)	(36)	(0.0)
Tax losses not recognized	—		—		1,323	1.0	967	2.2	868	0.6
Expenses not deductible for tax	1,136	1.0	446	0.3	69	0.0	43	0.1	173	0.1
Tax charge at Oasis Dragon Group's effective rate	28,410	26.0	34,246	25.2	35,459	26.0	12,096	26.9	37,177	25.7

12. DIVIDENDS

No dividend has been paid or declared by Oasis Dragon since the date of its incorporation.

13. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to Reorganization.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2014

	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Total
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
At 1 January 2014:					
Cost	2,609	1,576	15,239	65,178	84,602
Accumulated depreciation and impairment	(1,414)	(833)	(8,473)	(39,209)	(49,929)
Net carrying amount	1,195	743	6,766	25,969	34,673
At 1 January 2014, net of accumulated depreciation and impairment					
Additions	186	2,512	3,557	26,466	32,721
Disposals	—	—	—	—	—
Depreciation provided during the year	(266)	(635)	(2,171)	(19,758)	(22,830)
At 31 December 2014, net of accumulated depreciation and impairment	1,115	2,620	8,152	32,677	44,564
At 31 December 2014:					
Cost	2,795	4,088	18,796	75,309	100,988
Accumulated depreciation and impairment	(1,680)	(1,468)	(10,644)	(42,632)	(56,424)
Net carrying amount	1,115	2,620	8,152	32,677	44,564

31 December 2015

	Plant and machinery *(RMB'000)*	Motor vehicles *(RMB'000)*	Furniture and fixtures *(RMB'000)*	Leasehold improvements *(RMB'000)*	Total *(RMB'000)*
At 31 December 2014 and at 1 January 2015:					
Cost	2,795	4,088	18,796	75,309	100,988
Accumulated depreciation and impairment	(1,680)	(1,468)	(10,644)	(42,632)	(56,424)
Net carrying amount	1,115	2,620	8,152	32,677	44,564
At 1 January 2015, net of accumulated depreciation and impairment					
Additions	320	437	1,373	16,493	18,623
Disposals	—	—	(24)	—	(24)
Depreciation provided during the year	(365)	(980)	(2,451)	(19,903)	(23,699)
At 31 December 2015, net of accumulated depreciation and impairment	1,070	2,077	7,050	29,267	39,464
At 31 December 2015:					
Cost	3,115	4,525	20,145	79,570	107,355
Accumulated depreciation and impairment	(2,045)	(2,448)	(13,095)	(50,303)	(67,891)
Net carrying amount	1,070	2,077	7,050	29,267	39,464

Group

31 December 2016

	Plant and machinery (RMB'000)	Motor vehicles (RMB'000)	Furniture and fixtures (RMB'000)	Leasehold improvements (RMB'000)	Total (RMB'000)
At 31 December 2015 and at 1 January 2016:					
Cost	3,115	4,525	20,145	79,570	107,355
Accumulated depreciation and impairment	(2,045)	(2,448)	(13,095)	(50,303)	(67,891)
Net carrying amount	1,070	2,077	7,050	29,267	39,464
At 1 January 2016, net of accumulated depreciation and impairment					
Additions	98	1,777	3,092	25,351	30,318
Disposals	—	(26)	(19)	(163)	(208)
Depreciation provided during the year	(318)	(934)	(2,145)	(21,199)	(24,596)
At 31 December 2016, net of accumulated depreciation and impairment	850	2,894	7,978	33,256	44,978
At 31 December 2016:					
Cost	3,213	6,035	23,216	94,963	127,427
Accumulated depreciation and impairment	(2,363)	(3,141)	(15,238)	(61,707)	(82,449)
Net carrying amount	850	2,894	7,978	33,256	44,978

30 June 2017

	Plant and machinery *(RMB'000)*	Motor vehicles *(RMB'000)*	Furniture and fixtures *(RMB'000)*	Leasehold improvements *(RMB'000)*	Total *(RMB'000)*
At 31 December 2016 and at 1 January 2017:					
Cost	3,213	6,035	23,216	94,963	127,427
Accumulated depreciation and impairment	(2,363)	(3,141)	(15,238)	(61,707)	(82,449)
Net carrying amount	850	2,894	7,978	33,256	44,978
At 1 January 2017, net of accumulated depreciation and impairment					
Additions	81	—	500	5,574	6,155
Disposals	—	—	(3)	(34)	(37)
Depreciation provided during the period	(15)	(391)	(1,515)	(10,126)	(12,047)
At 30 June 2017, net of accumulated depreciation and impairment	916	2,503	6,960	28,670	39,049
At 30 June 2017:					
Cost	3,294	6,035	23,712	95,014	128,055
Accumulated depreciation and impairment	(2,378)	(3,532)	(16,752)	(66,344)	(89,006)
Net carrying amount	916	2,503	6,960	28,670	39,049

15. OTHER INTANGIBLE ASSETS

31 December 2014

	Computer software *(RMB'000)*	**Total** *(RMB'000)*
At 1 January 2014:		
Cost	702	702
Accumulated amortization	(199)	(199)
Net carrying amount	503	503
Cost at 1 January 2014, net of accumulated depreciation	503	503
Additions	673	673
Amortization provided during the year	(234)	(234)
At 31 December 2014	942	942
At 31 December 2014:		
Cost	1,375	1,375
Accumulated amortization	(433)	(433)
Net carrying amount	942	942

31 December 2015

	Computer software *(RMB'000)*	Total *(RMB'000)*
At 31 December 2014 and at 1 January 2015:		
Cost	1,375	1,375
Accumulated amortization	(433)	(433)
Net carrying amount	942	942
Cost at 1 January 2015, net of accumulated depreciation	942	942
Additions	85	85
Amortization provided during the year	(280)	(280)
At 31 December 2015	747	747
At 31 December 2015:		
Cost	1,460	1,460
Accumulated amortization	(713)	(713)
Net carrying amount	747	747

31 December 2016

	Computer software *(RMB'000)*	Total *(RMB'000)*
At 31 December 2015 and at 1 January 2016:		
Cost	1,460	1,460
Accumulated amortization	(713)	(713)
Net carrying amount	747	747
Cost at 1 January 2016, net of accumulated depreciation	747	747
Additions	—	—
Amortization provided during the year	(293)	(293)
At 31 December 2016	454	454
At 31 December 2016:		
Cost	1,460	1,460
Accumulated amortization	(1,006)	(1,006)
Net carrying amount	454	454

30 June 2017

	Computer software (RMB'000)	Total (RMB'000)
At 31 December 2016 and at 1 January 2017:		
Cost	1,460	1,460
Accumulated amortization	(1,006)	(1,006)
Net carrying amount	454	454
Cost at 1 January 2017, net of accumulated depreciation	454	454
Additions	771	771
Amortization provided during the period	(157)	(157)
At 30 June 2017	1,068	1,068
At 30 June 2017:		
Cost	2,231	2,231
Accumulated amortization	(1,163)	(1,163)
Net carrying amount	1,068	1,068

16. INVENTORIES

Group

	As at 31 December			As at 30 June
	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)
Finished goods	261,934	265,562	285,218	305,350

17. TRADE AND NOTES RECEIVABLES

Group

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade receivables	124,310	156,856	201,503	269,537
Notes receivable	6,731	—	343	1,184
	131,041	156,856	201,846	270,721
Impairment of the trade receivables	(560)	—	—	—
Balance at the end of the year	130,481	156,856	201,846	270,721

Oasis Dragon 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 generally seven to sixty days. Each customer has a maximum credit limit. Oasis Dragon Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that Oasis Dragon Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Oasis Dragon Group does not hold any collateral or other enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of Oasis Dragon Group, based on the invoice date and net of provisions, is as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within 3 months	111,774	147,436	195,143	259,051
3 to 6 months	8,533	5,660	5,415	5,072
6 months to 1 year	2,285	2,731	938	5,359
Over 1 year	1,718	1,029	7	55
	124,310	156,856	201,503	269,537

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

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Balance at beginning of year	78	560	—	—
Impairment for the year/ period	482	—	—	—
Impairment provision written off for the year/ period	—	(560)	—	—
Balance at end of year/ period	560	—	—	—

There were no individually impaired trade receivables as at the end of each of the Relevant Periods.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Prepayments	19,589	26,920	20,890	24,310
Receivable from employees	9,756	5,631	2,890	2,695
Deposits	11,340	15,821	14,919	15,732
Deductible input VAT	9,587	6,584	4,742	571
Others	1,117	986	710	789
	51,389	55,942	44,151	44,097

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.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	Note	As at 31 December			As at 30 June
		2014	**2015**	**2016**	**2017**
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Cash and cash equivalents		20,707	62,104	19,375	56,533

All cash and bank balances are denominated in RMB.

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, Oasis Dragon Group is permitted to exchange RMB for other currencies through banks authorized 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 of between one day and three months depending on the immediate cash requirements of Oasis Dragon Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

20. TRADE PAYABLES

Group

An analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade payables	86,575	92,345	109,088	108,720

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 120 days.

An aged analysis of the trade payables of Oasis Dragon Group, based on the invoice date and net of provisions, is as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within 3 months	85,899	19,352	108,542	107,737
3 to 12 months	397	72,259	378	764
1 to 2 years	46	482	93	98
2 to 3 years	—	32	59	59
Over 3 years	233	220	16	62
	86,575	92,345	109,088	108,720

21. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Other payables	41,721	26,823	35,621	44,617
Accruals	21,472	20,764	45,971	74,113
Advances from customers	18,403	25,987	57,758	54,963
Payroll and welfare payables	14,395	14,885	17,200	19,815
Other tax payable	526	1,526	3,551	17,636
	96,517	89,985	160,101	211,144

Other payables are non-interest-bearing and repayable on demand.

22. INTEREST — BEARING BANK BORROWINGS

Group

	As at 31 December									As at 30 June		
	2014			2015			2016			2017		
	Effective interest rate (%)	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current												
Bank loans - unsecured	5.26-5.32	2015	115,000	4.61	2016	110,000	—	—	—	—	—	—
			115,000			110,000			—			—
Non-current												
Bank loans - unsecured	5.70	2017	49,000	4.75-5.50	2017	150,000	—	—	—	—	—	—
Total			164,000			260,000			—			—

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Analyzed into:				
Bank loans repayable:				
Within one year	115,000	110,000	—	—
In the second year	—	150,000	—	—
In the third to fifth years, inclusive	49,000	—	—	—
	164,000	260,000	—	—

23. DEFERRED TAX

The movements in deferred tax liabilities and deferred tax assets during the years ended 31 December 2014, 31 December 2015, 31 December 2016 and the six months ended 30 June 2017 are as follows:

Deferred tax liabilities

Group

	Withholding taxes
	(RMB'000)
As at 1 January 2014	1,534
Deferred tax credited to profit or loss during the year	(111)
As at 31 December 2014 and 1 January 2015	1,423
Deferred tax charged to profit or loss during the year	7
As at 31 December 2015 and 1 January 2016	1,430
Deferred tax charged to profit or loss during the year	32
As at 31 December 2016 and 1 January 2017	1,462
Deferred tax utilized in the statement of profit or loss during the period	(1,462)
As at 30 June 2017	—

Deferred tax assets

Group

	Impairment of receivables *(RMB'000)*	**Impairment of inventories** *(RMB'000)*	**Accruals** *(RMB'000)*	**Losses available for offsetting against future taxable profits** *(RMB'000)*	**Total** *(RMB'000)*
As at 1 January 2014	19	1,583	2,289	1,585	5,476
Deferred tax credited/(charge) to profit or loss during the year	—	1,721	947	(1,418)	1,250
As at 31 December 2014 and 1 January 2015	19	3,304	3,236	167	6,726
Deferred tax credited/(charged) to profit or loss during the year	91	(142)	(1,984)	(137)	(2,172)
As at 31 December 2015 and 1 January 2016	110	3,162	1,252	30	4,554
Deferred tax credited/(charged) to profit or loss during the year	(110)	321	9,264	88	9,563
As at 31 December 2016 and 1 January 2017	—	3,483	10,516	118	14,117
Deferred tax credited/(charged) to profit or loss during the year	—	105	2,405	(118)	2,392
As at 30 June 2017	—	3,588	12,921	—	16,509

Deferred tax assets have not been recognized in respect of the following items:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Tax losses	—	—	1,323	832
Deductible temporary differences	—	—	—	—
	—	—	1,323	832

Pursuant to the Corporate Income Tax Law of the People's Republic of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings 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. For Oasis Dragon Group, the applicable rate is 5% or 10%. Oasis Dragon Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of each of the Relevant Periods, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of Oasis Dragon Group's subsidiaries established in Mainland China. In the opinion of the Directors, based on Oasis Dragon Group's future expansion plan in Mainland at the end of each of the Relevant Periods, it is not probable that the subsidiaries will distribute such 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 recognized totalled approximately RMB500,000, RMB2,370,000, RMB31,804,000 and RMB82,732,000 as at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively.

24. SHARE CAPITAL

Oasis Dragon was incorporated on 13 November 2015 with limited liability in the Samoa. On 11 April 2016, a total of 1 share was allotted and issued by Oasis Dragon to GBC. As a result, the entire issued share capital of Oasis Dragon was wholly owned by GBC.

25. RESERVES

Group

The amounts of Oasis Dragon Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Historical Financial Information.

The GB Business of GCCL did not exist as a legal or statutory entity. GRCN has acquired GB business of GCCL by way of transfer of assets, liabilities and branches, and historical earnings of GB Business of GCCL retained in the GCCL.

Prior to 9 June 2017, Goodbaby China effectively held 100%equity interest in SHFS via GCCL and Goodbaby (China) Commercial Holdings Limited ("GCHL"). On 9 June 2017, the Oasis Dragon Group acquired 100% equity interest in SHFS from GCCL and GCHL, and the consideration paid to GCCL and GCHL amounting to RMB10 million was regarded as a deemed distribution to an equity holder.

Statutory and other surplus reserve

In accordance with Company Law of the PRC, certain subsidiaries of Oasis Dragon Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserve until the reserve reach 50% of their respective registered capital. Subject to certain restrictions set out in Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

Other surplus reserve was appropriated from net profit in accordance with a prescribed percentage approved in a general meeting of the shareholders. Other surplus reserve may be used to offset accumulated losses or increase capital. Where an enterprise satisfies the stipulated conditions, other surplus reserve can also be used to distribute cash dividends.

26. BUSINESS COMBINATION

On 14 August 2014, GCQD acquired 66.7% equity interests in QMCP. QMCP is mainly engaged in the wholesale and retail of children's products. The purchase consideration for the acquisition was in the form of cash, with RMB1,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of QMCP as at the date of acquisition were as follows:

	Fair value recognize on acquisition *RMB'000*
Cash and bank balances	1,253
Property, plant and equipment	26
Trade and notes receivables	317
Prepayments, deposits and other receivables	1,995
Trade payables	(1,179)
Other payables and accruals	(913)
Total identifiable net assets at fair value	1,499
Non-controlling interests	(500)
Goodwill on acquisition	1
Satisfied by cash	1,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB317,000 and RMB1,995,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB317,000 and RMB1,995,000, respectively.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(1,000)
Cash and bank balances acquired	1,253
Net inflow of cash and cash equivalents included in cash flows from investing activities	253

Since the acquisition, QMCP contributed RMB24,979,000 to Oasis Dragon Group's turnover and RMB43,000 to Oasis Dragon Group's profit for the year ended 31 December 2014.

Had the combination taken place at the beginning of the year ended 31 December 2014, the revenue and the profit of Oasis Dragon Group for the year ended 31 December 2014 would have been RMB1,678,738,000 and RMB79,431,000, respectively.

27. OPERATING LEASE COMMITMENTS

Group as lessor

Oasis Dragon Group did not lease its investment properties under operating lease arrangement during the year or period.

Group as lessee

Oasis Dragon Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for office equipment are for terms within one year.

As at the end of each of the Relevant Periods, Oasis Dragon Group had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within one year	15,081	27,382	31,259	33,325
After one year but not more than five years	26,608	62,947	77,745	74,658
More than five years	20,734	17,344	8,101	4,975
	62,423	107,673	117,105	112,958

28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, Oasis Dragon Group and Oasis Dragon had the following capital commitments at the end of each of the Relevant Periods:

Group

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Contracted but not provided for: Property, plant and equipment	—	—	173	—

In addition to the minimum rental payments disclosed above, Oasis Dragon Group has a commitment to pay rent with reference to turnover for certain retail stores. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

29. RELATED PARTY TRANSACTIONS AND BALANCES

The directors of Oasis Dragon are of the view that the following parties/companies are related parties that had transactions or balances with Oasis Dragon Group during the Relevant Periods.

(a) Name and relationship

Name of related parties	Relationship with Oasis Dragon Group and Oasis Dragon
Goodbaby Children Products Co., Ltd. ("GCPC")	Significantly influenced by Mr. Song and Ms. Fu
Goodbaby China Commercial Co., Ltd. ("GCCL-Non GB Business")	Significantly influenced by Mr. Song and Ms. Fu
Goodbaby China Holdings Limited ("CAGB")	Significantly influenced by Mr. Song and Ms. Fu
Mothercare-Goodbaby China Retail Limited ("MGRL")	Significantly influenced by Mr. Song and Ms. Fu
Mommy Best Technology Co., Ltd. ("MAMA")	Significantly influenced by Mr. Song and Ms. Fu
Anhui Guoguo Children Products Sales Co., Ltd. ("Anhui Co")	A holding company of a subsidiary after 27 January 2014
Henan Shangqiu Zhuoran Children Products Co., Ltd. ("Shangqiu Co")	A holding company of a subsidiary after 26 March 2014
Mr. Zhang Benjin ("Mr. Zhang")	A shareholder of a subsidiary after 20 May 2014

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in this Historical Financial Information, Oasis Dragon Group had the following material transactions with related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(unaudited)*	*(RMB'000)*
Sales of goods to a related party (Note (a))					
GCPC	139	246	38	37	280
Purchase of goods from related parties (Note (b))					
GCPC	644,128	700,539	666,251	351,865	431,695
Anhui Co	7,936	—	—	—	—
Shangqiu Co	2,134	—	—	—	—
	654,198	700,539	666,251	351,865	431,695
Expenses paid by related parties (Note (c))					
GCPC	823	745	581	327	305
Anhui Co	—	3,808	—	—	—
Shangqiu Co	2,497	143	334	334	145
Mr. Zhang	—	9,155	1,730	430	2,818
	3,320	13,851	2,645	764	3,268
Expenses paid on behalf of related parties (Note (c))					
Shangqiu Co	—	563	—	—	—
Advances from related parties (Note (d))					
GCCL-Non GB Business	—	—	75,895	—	—
Advances to related parties (Note (e))					
GCCL-Non GB Business	33,727	86,441	180,000	133,708	203,604

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

Note (b): The purchases of goods were made according to the prices and terms mutually agreed with the related parties.

Note (c): The expenses paid on behalf of/by the related parties are unsecured, interest-free and repayable on demand.

Note (d): The advances from related parties are unsecured and interest is made according to the terms mutually agreed with the related party.

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

(c) **Outstanding balances with related parties**

Group

Oasis Dragon Group had the following balances with related parties:

	As at 31 December			**As at 30 June**
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amounts due from related parties				
GCCL-Non GB Business	314,070	399,948	17,102	209,093
Shangqiu Co	—	563	—	—
	314,070	400,511	17,102	209,093
Amounts due to related parties				
GCPC	299,113	254,489	254,624	395,335
GCHL	—	—	—	17,124
Anhui Co	4,937	4,440	—	—
Shangqiu Co	3,051	413	375	520
Mr. Zhang	—	3,267	—	1,550
	307,101	262,609	254,999	414,529

The amounts due from/to related parties are unsecured, interest-free and repayable on demand except for the amounts due to GCPC which are settled on terms of 120 days.

The amounts due from GCCL-Non GB Business mainly arose from the spin-off of the GB Business from GCCL.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods were as follows:

Group

As at 31 December 2014

Financial assets

	Loans and receivables *(RMB'000)*
Trade and notes receivables	130,481
Financial assets included in prepayments, deposits and other receivables (note 18)	31,800
Amounts due from related parties	314,070
Cash and cash equivalents	20,707
	497,058

Financial liabilities

	Financial liabilities at amortised cost *(RMB'000)*
Financial liabilities included in other payables and accruals (note 21)	75,045
Trade payables	86,575
Interest-bearing bank borrowings	115,000
Amounts due to related parties	307,101
	583,721

As at 31 December 2015

Financial assets

	Loans and receivables *(RMB'000)*
Trade and notes receivables	156,856
Financial assets included in prepayments, deposits and other receivables (note 18)	29,022
Amounts due from related parties	400,511
Cash and cash equivalents	62,104
	648,493

Financial liabilities

	Financial liabilities at amortised cost *(RMB'000)*
Financial liabilities included in other payables and accruals (note 21)	69,221
Trade payables	92,345
Interest-bearing bank borrowings	110,000
Amounts due to related parties	262,609
	534,175

As at 31 December 2016

Financial assets

	Loans and receivables *(RMB'000)*
Trade and notes receivables	201,846
Financial assets included in prepayments, deposits and other receivables (note 18)	23,261
Amounts due from related parties	17,102
Cash and cash equivalents	19,375
	261,584

Financial liabilities

	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables and accruals (note 21)	114,130
Trade payables	109,088
Amounts due to related parties	254,999
	478,217

As at 30 June 2017

Financial assets

	Loans and receivables (RMB'000)
Trade and notes receivables	270,721
Financial assets included in prepayments, deposits and other receivables (note 18)	19,787
Amounts due from related parties	209,093
Cash and cash equivalents	56,533
	556,134

Financial liabilities

	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables and accruals (note 21)	137,031
Trade payables	108,720
Amounts due to related parties	414,529
	660,280

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of Oasis Dragon Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts			
	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Financial liabilities				
Interests-bearing bank borrowings, non-current portion	164,000	260,000	—	—

	Fair value			
	As at 31 December			As at 30 June
	2014	2015	2016	2017
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Financial liabilities				
Interests-bearing bank borrowings, non-current portion	164,000	260,000	—	—

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, trade payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables and accruals and amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Oasis Dragon Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, 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.

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 following method and assumption were used to estimate the fair value:

The fair values of the non-current portion of interests-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments within similar terms, credit risk and remaining maturities. Oasis Dragon Group's own non-performance risk for interest-bearing bank borrowings as at the end of each of the Relevant Periods was assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of Oasis Dragon Group's financial instruments:

Financial liabilities for which fair values are disclosed

Group

		Fair value measurement using		
	31 December 2014	**Quoted prices in active markets Level 1**	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	164,000	—	164,000	—

		Fair value measurement using		
	31 December 2015	**Quoted prices in active markets Level 1**	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	260,000	—	260,000	—

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Oasis Dragon Group's principal financial instruments comprise interest-bearing bank borrowings, trade payables, other payables and amounts due to related parties. The main purpose of these financial instruments is to raise finance for Oasis Dragon Group's operations. Oasis Dragon Group has various financial investments such as trade and notes receivables, other receivables, cash and cash equivalents, other current financial assets, time deposits and amounts due from related parties, which arise directly from its operations.

The main risks arising from Oasis Dragon 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 summarized 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.

Oasis Dragon Group's exposure to the risk of changes in market interest rates relates primarily to Oasis Dragon Group's bank borrowings with floating interest rates. The interest rate and terms of repayments of borrowings are disclosed in note 22.

Oasis Dragon Group has not used any interest swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of Oasis Dragon Group's profit before tax (through the impact on floating rate borrowings) as follows:

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *(RMB'000)*
Six months ended 30 June 2017		
RMB	50	—
RMB	(50)	—
Year ended 31 December 2016		
RMB	50	—
RMB	(50)	—
Year ended 31 December 2015		
RMB	50	(1,142)
RMB	(50)	1,142
Year ended 31 December 2014		
RMB	50	(441)
RMB	(50)	441

Credit risk

Oasis Dragon Group trades only with recognized and creditworthy third parties and the retail customers. It is Oasis Dragon Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Sales to retail customers are made in cash or via major debit and credit cards. In addition, receivable balances are monitored on an ongoing basis and Oasis Dragon Group's exposure to bad debts is not significant.

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

There are no significant concentrations of credit risk within Oasis Dragon Group as the customer bases of Oasis Dragon Group's trade receivables are widely dispersed.

Liquidity risk

Oasis Dragon Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

Oasis Dragon Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The tables below summarize the maturity profile of Oasis Dragon Group's financial liabilities at the end of each of the Relevant Periods based on contractual undiscounted payments.

Group

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
31 December 2014					
Interest-bearing bank borrowings	—	31,883	87,950	51,979	171,812
Trade payables	86,575	—	—	—	—
Other payables	96,517	—	—	—	—
Amounts due to related parties	307,101	—	—	—	—
	490,193	31,883	87,950	51,979	171,812
31 December 2015					
Interest-bearing bank borrowings	—	3,236	118,154	154,877	276,267
Trade payables	92,345	—	—	—	—
Other payables	89,985	—	—	—	—
Amounts due to related parties	262,609	—	—	—	—
	444,939	3,236	118,154	154,877	276,267
31 December 2016					
Interest-bearing bank borrowings	—	—	—	—	—
Trade payables	109,088	—	—	—	—
Other payables	160,101	—	—	—	—
Amounts due to related parties	254,999	—	—	—	—
	524,188	—	—	—	—
30 June 2017					
Interest-bearing bank borrowings	—	—	—	—	—
Trade payables	108,720	—	—	—	—
Other payables	211,144	—	—	—	—
Amounts due to related parties	414,529	—	—	—	—
	734,393	—	—	—	—

Capital management

The primary objective of Oasis Dragon 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 maximize shareholders' value.

Oasis Dragon Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Oasis Dragon Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Oasis Dragon Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

Oasis Dragon Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Oasis Dragon Group includes, within net debt, interest-bearing bank borrowings, trade payables, other payables and accruals, amounts due to related parties less cash and cash equivalents and time deposits. Capital includes equity attributable to owners of the parent.

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade payables	86,575	92,345	109,088	108,720
Other payables and accruals	96,517	89,985	160,101	211,144
Interest-bearing bank borrowings	164,000	260,000	—	—
Amounts due to related parties	307,101	262,609	254,999	414,529
Less: Cash and cash equivalents	20,707	62,104	19,375	56,533
Net debt	633,486	642,835	504,813	677,860
Equity attributable to owners of the parent	163,979	264,398	57,938	152,990
Capital and net debt	797,465	907,223	562,751	830,850
Gearing ratio	79%	71%	90%	82%

33. EVENTS AFTER THE REPORTING PERIODS

GCSQ completed capital reduction in August 2017, through which GRCN had disposed of entire 51% equity interest in GCSQ.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Oasis Dragon Group or any of its subsidiaries in respect of any period subsequent to 30 June 2017.

The auditors of Oasis Dragon have issued unqualified opinions on the audited consolidated financial statements of the Target Group for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2017.

Set out below is the management discussion and analysis on the Target Group for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017. The following financial information is based on the accountants' report of the Target Group as set out in Appendix IIA to this circular.

A. Business Review

The Target Group has the following core businesses: (i) the product development, brand management and distribution of leading Self-owned Brands in maternity and baby-care products and apparel products; and (ii) one of the largest retail networks for MBC Products in China, a leading omni-channel sales platform that provides customers with its Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products.

The Target Group's omni-channel sales platform includes multiple online and offline sales channels. As at 30 June 2017, the Target Group's online sales network consisted of: (i) self-operated online retail sales channels, including the Target Group's own web-based platform, haohaizi.com and six flagship stores on third-party online platforms; (ii) 4 key accounts at online retail platforms, all of which are leading e-commerce companies in China; and (iii) 183 authorized third-party online retailers. The Target Group has also established an extensive and well-managed offline sales network, which, as at 30 June 2017, consisted of (i) 986 self-operated stores located within department stores, shopping malls and at street level; (ii) 406 offline distributors; and (iii) 54 national or regional supermarket and hypermarket operators and group purchase customers.

The Target Group will become a wholly-owned subsidiary of the Group upon Completion. After the acquisition, the combination of the Group's self-owned strategic brands with the Target Group's know-how and R&D capabilities in maternity and baby care products and apparel and home textile products will enable the Group to expand its existing product portfolio of durable juvenile products into holistic and complementary MBC products. The Group will also further strengthen the Target Group's online and offline retail network in China through opening online and offline self-operated stores and enhance collaboration with online key accounts and third party retailers. More importantly, the Group will be able to execute its BOOM strategy effectively through having an integrated and seamless operation from product development, branding and marketing to end-customer communication. It will conduct marketing initiatives in China more effectively after obtaining direct access to online and offline retail network, providing quality services and shopping experiences to end-customers, combining the brand management of "gb" brands and streamlining marketing and distribution management in the China market.

B. **Financial Review**

Overview

The following table sets forth the breakdown of revenue, gross profit and EBIT of the Target Group by product and their respective contribution to the total revenue, total gross profit and total EBIT for the year/period indicated, respectively.

	For the year ended 31 December,						For the six months ended 30 June,			
	2014		2015		2016		2016		2017	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	('000)		*('000)*		*('000)*		*('000)* *(unaudited)*		*('000)*	
Durable juvenile products	970,474	57.8	1,086,607	58.6	1,057,786	54.6	508,729	55.3	630,802	52.3
Maternity and baby-care products	412,136	24.6	486,613	26.2	578,670	29.9	272,423	29.6	376,446	31.2
Apparel products	296,128	17.6	281,411	15.2	300,939	15.5	139,517	15.1	198,663	16.5
Total Revenue	1,678,738	100.0	1,854,631	100.0	1,937,395	100.0	920,669	100.0	1,205,911	100.0
Durable juvenile products	314,109	44.1	351,628	44.5	343,708	42.1	168,445	42.9	208,458	40.2
Maternity and baby-care products	208,034	29.2	250,482	31.7	292,001	35.8	138,569	35.2	191,473	36.9
Apparel products	189,614	26.7	187,835	23.8	180,295	22.1	86,090	21.9	118,390	22.9
Total Gross Profit	711,757	100.0	789,945	100.0	816,004	100.0	393,104	100.0	518,321	100.0
Durable juvenile products	26,885	16.1	24,486	13.4	25,957	13.8	10,167	12.3	26,237	16.4
Maternity and baby-care products	103,183	61.7	126,840	69.6	150,052	79.9	67,263	81.4	106,170	66.4
Apparel products	37,117	22.2	30,941	17.0	11,912	6.3	5,241	6.3	27,556	17.2
Aggregate segment EBIT(1)	167,185	100.0	182,267	100.0	187,921	100.0	82,671	100.0	159,963	100.0
Overhead(2)	(43,159)	N/A	(34,813)	N/A	(38,017)	N/A	(28,470)	N/A	(15,276)	N/A
Total EBIT	124,026	N/A	147,454	N/A	149,904	N/A	54,201	N/A	144,687	N/A

Notes:

(1) Earnings before income tax, finance costs, other income and gains, other expenses and corporate and other unallocated expenses.

(2) Include other income and gains, other expenses and corporate and other unallocated expenses.

Revenue

The Target Group recorded revenue for the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 of approximately RMB1,678.7 million, RMB1,854.6 million, RMB1,937.4 million, RMB920.7 million and RMB1,205.9 million, respectively.

The revenue increased by approximately 10.5% for the year ended 31 December 2015 as compared to the year ended 31 December 2014. The increase was mainly due to (i) approximately 12.0% increase in revenues generated from sales of durable juvenile products, mainly driven by growth in the sale of car seats and launch of new products; and (ii) approximately 18.1% increase in revenues generated from sales of maternity and baby-care products, primarily driven by strong growth in online sales channel as a result of product portfolio diversification underpinned by new product launches and expansion of online authorized retailers.

The revenue increased by approximately 4.5% for the year ended 31 December 2016 as compared to the year ended 31 December 2015. The increase was mainly due to (i) approximately 18.9% increase in revenue generated from sales of maternity and baby-care products, which was mainly driven by changes in the Target Group's operational strategy, including adjustments of SKUs and product portfolio optimization which resulted in increase in the average selling price, and customer-oriented marketing and services; (ii) approximately 6.9% increase in revenues generated from sales of apparel products mainly attributable to growth across self-operated and distribution channels as a result of brand repositioning and enhanced product offering, partially offset by the decrease in revenues generated from durable juvenile products.

The revenue significantly increased by approximately 31.0% for the six months ended 30 June 2017 as compared to the same period in 2016. The growth was mainly due to following reasons: (i) approximately 24.0% increase in revenue generated from sales of durable juvenile products due to strong traffic growth in offline self-operating stores and overall increase in online and offline sales attributable to enhanced marketing campaign and brand awareness; (ii) approximately 38.2% increase in revenue generated from sales of maternity and baby-care products, driven by expansion across online and offline channels as a result of new product launches with improved functionality and design and continued implementation of the aforementioned strategic improvements; (iii) approximately 42.4% increase in revenue generated from sales of apparel products driven by the repositioning of brand in 2016 and subsequent product portfolio adjustment through extending SKU and coverage to age 0-8+, as well as launch of home textile products that drove further growth of the segment.

Gross profit and gross profit margin

The Target Group had recorded gross profits of approximately RMB711.8 million, RMB789.9 million, RMB816.0 million, RMB393.1 million and RMB518.3 million for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2016 and 2017, respectively.

The following table sets forth the gross profit and gross profit margin by products for the year/period indicated:

	For the year ended 31 December,						For the six months ended 30 June,			
	2014		2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	('000)		*('000)*		*('000)*		*('000)* *(unaudited)*		*('000)*	
Durable juvenile products	314,109	32.4	351,628	32.4	343,708	32.5	168,445	33.1	208,458	33.0
Maternity and baby-care products	208,034	50.5	250,482	51.5	292,001	50.5	138,569	50.9	191,473	50.9
Apparel products	189,614	64.0	187,835	66.7	180,295	59.9	86,090	61.7	118,390	59.6
Overall	711,757	42.4	789,945	42.6	816,004	42.1	393,104	42.7	518,321	43.0

Gross profit of the Target Group increased by 11.0% from 2014 to 2015, by 3.3% from 2015 to 2016 and 31.9% from the six months ended 30 June 2016 to the same period in 2017, mainly driven by growth in revenue.

The overall gross profit margin for the years ended 31 December 2014, 2015 and 2016 remained stable, which was 42.4%, 42.6% and 42.1%, respectively. The gross profit margin for the six months ended 30 June 2016 and 2017 were 42.7% and 43.0% respectively. The gross profit margin at the Target Group level remained stable mainly driven by the increase in the sales of maternity and baby-care products which have relatively higher gross profit margin offset by the decline in the gross profit margin of apparel products.

The gross profit margin of durable juvenile products and non-durable products covering maternity and baby-care products remained relatively stable during the track record period. The non-durable juvenile product gross margin is normally higher than that for durable products, because the non-durable juvenile product business covers branding, products development, supply chain, distribution and retail, which durable juvenile products business only covers retail. The gross profit margin of apparel products decreased from 66.7% in 2015 to 59.9% in 2016 and remained stable at 59.6% for the six months ended 30 June 2017, mainly because the Target Group employed more aggressive sales method in 2016 and an increase in the contribution of sales of products through distributors in the first half of 2017, which had a relatively lower profit margin.

EBIT

The Target Group had recorded total EBIT of approximately RMB124.0 million, RMB147.5 million, RMB149.9 million, RMB54.2 million and RMB144.7 million for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2016 and 2017, respectively.

The following table sets forth the EBIT and EBIT margin by products for the year/period indicated:

	For the year ended 31 December,						For the six months ended 30 June,			
	2014		2015		2016		2016		2017	
	EBIT	EBIT margin	EBIT	EBIT margin	EBIT	EBIT margin	EBIT	EBIT margin	EBIT	EBIT margin
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	('000)		*('000)*		*('000)*		*('000)* *(unaudited)*		*('000)*	
Durable juvenile products	26,885	2.8	24,486	2.3	25,957	2.5	10,167	2.0	26,237	4.2
Maternity and baby-care products	103,183	25.0	126,840	26.1	150,052	25.9	67,263	24.7	106,170	28.2
Apparel products	37,117	12.5	30,941	11.0	11,912	4.0	5,241	3.8	27,556	13.9
Aggregate segment EBIT[(1)]	167,185	10.0	182,267	9.8	187,921	9.7	82,671	9.0	159,963	13.3
Overhead[(2)]	(43,159)	(2.6)	(34,813)	(1.9)	(38,017)	(2.0)	(28,470)	(3.1)	(15,276)	(1.3)
Total EBIT	124,026	7.4	147,454	8.0	149,904	7.7	54,201	5.9	144,687	12.0

Notes:

(1) Earnings before income tax, finance costs, other income and gains, other expenses and corporate and other unallocated expenses.

(2) Overhead includes other income and gains, other expenses and corporate and other unallocated expenses. Overhead margin is computed as overhead divided by revenue.

The total EBIT increased by approximately 18.9% for the year ended 31 December 2015 as compared to the year ended 31 December 2014, which was mainly driven by an increase in the sales of maternity and baby-care products and improved EBIT margin in this product category. The total EBIT increased by approximately 1.7% for the year ended 31 December 2016 as compared to the year ended 31 December 2015, which was mainly driven by increased sales of maternity and baby-care products and durable juvenile products and improved EBIT margin of durable juvenile products. The total EBIT significantly increased by approximately 166.9% for the six months ended 30 June 2017 as compared to the same period in 2016. The increase was mainly driven by increased sales and significantly improved EBIT margins of all product categories.

The overall EBIT margin of the Target Group remained relatively stable at 7.4%, 8.0% and 7.7% for the financial years ended 31 December 2014, 2015 and 2016. This was primarily due to the improvement in the EBIT margin of maternity and baby-care products as a result of increase in the gross profit margin and integration of the supply chain which led to higher efficiency, offset by decline in the EBIT margin of apparel products as a result of decreases in the gross profit margin. The EBIT margin significantly improved to 12.0% for the six months ended 30 June 2017, which was mainly driven by improvement in the EBIT margin of all product categories due to the decrease in unit fixed expenses as the business grows in scale. The significant increase in the EBIT margin of apparel products was also due to greater contribution of sales of home textile products to distributors which resulted in smaller selling and distribution related expenses.

Other income and gains

The Target Group had recorded other income and gains of approximately RMB10.6 million, RMB9.6 million, RMB7.4 million, RMB2.1 million and RMB3.2 million for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2016 and 2017, respectively.

Other income and gains decreased by 9.6% for the year ended 31 December 2015 as compared to the year ended 31 December 2014, and decreased by 22.6% for the year ended 31 December 2016 as compared to the year ended 31 December 2015, primarily due to a decrease in government grants partially offset by an increase in service fee income.

Other income and gains increased by 52.8% for the six months ended 30 June 2017 as compared to the same period in 2016, which was primarily due to a significant increase in service fee income as a result of reclaim of transportation costs previously paid on behalf of online retail customers.

Selling & distribution expenses

The Target Group had recorded selling and distribution expenses of approximately RMB540.8 million, RMB579.2 million, RMB593.0 million, RMB293.9 million and RMB343.6 million for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively, which mainly comprised salaries and welfares, concession fees, market expenses, store fees, rental fees, transportation fees, office expenses and equipment fees.

The selling and distribution expenses increased by 7.1% for the year ended 31 December 2015 as compared to the year ended 31 December 2014, which was primarily due to an increase of market expenses as a result of the Target Group's investment in online channel marketing and an increase in rental fees with the opening of offline retail stores in shopping malls.

The selling and distribution expenses increased by 2.4% for the year ended 31 December 2016 as compared to the year ended 31 December 2015, which was primarily due to an increase of store fees as a result of increased commission paid to shopping malls and an increase of transportation fees due to increased online sales.

The selling and distribution expenses increased by 16.9% for the six months ended 30 June 2017 as compared to the same period in 2016, which was primarily due to an increase in the market expenses and the salaries and welfares.

The selling and distribution expenses as % of revenue showed a decreasing trend for the years ended 31 December 2014, 2015 and 2016, declining from 32.2% in 2014 to 30.6% in 2016, and decreased from 31.9% for the six months ended 30 June 2016 to 28.5% for the six months ended 30 June 2017.

Administrative expenses

The Target Group had recorded administrative expenses of approximately RMB52.3 million, RMB69.0 million, RMB75.9 million, RMB45.5 million and RMB31.9 million for the financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively, which mainly comprised salaries and staff welfares, office expenses, equipment fees, rental fees, amortizations and consulting expenses.

The administrative expenses increased by approximately 32.0% for the year ended 31 December 2015 as compared to the year ended 31 December 2014, and increased by approximately 10.0% for the year ended 31 December 2016 as compared to the year ended 31 December 2015, primarily due to an increase in salaries and welfares and the incurrence of IPO related expense in the amount of RMB10.4 million and RMB14.7 million for the year ended 31 December 2015 and the year ended 31 December 2016, respectively, offset by the decrease in office expenses.

The administrative expenses decreased by approximately 30.1% for the six months ended 30 June 2017 as compared to the same period in 2016, primarily due to the incurrence of IPO related expense in the amount of RMB14.7 million for the first half of the year ended 30 June 2016.

Other Expenses

The Target Group had recorded other expenses of approximately RMB5.2 million, RMB3.9 million, RMB4.6 million, RMB1.6 million and RMB1.4 million for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively, which mainly comprised cost of material sold, compensations for contract breach and penalties.

Finance costs

The Target Group recorded finance costs of approximately RMB14.9 million, RMB11.6 million, RMB13.6 million, RMB9.2 million and nil for the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively, which were the interest expenses for the outstanding bank and short term borrowings.

Profit for the year/period

The Target Group recorded profit of approximately RMB80.7 million, RMB101.6 million, RMB100.8 million, RMB32.9 million and RMB107.5 million for the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively.

As a result of the factors described above, the profit increased by approximately 25.9% for the year ended 31 December 2015 as compared with the year ended 31 December 2014, decreased by approximately 0.8% for the year ended 31 December 2016 as compared with the year ended 31 December 2015, and increased by approximately 226.9% for the six months ended 30 June 2017 as compared with the same period in 2016.

Liquidity and financial resources

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group had net current assets of approximately RMB172.8 million, RMB385.7 million, RMB14.6 million and RMB112.0 million, respectively. The current ratio (being current assets over current liabilities) as at 31 December 2014, 2015 and 2016 and 30 June 2017 were approximately 1.3 times, 1.7 times, 1.0 times and 1.1 time, respectively. The increase of the current ratio as at 31 December 2015 compared to as at 31 December 2014 was primarily due to the increase of total current assets as at 31 December 2015 as a result of the increase in amounts due from related parties. The decrease of the current ratio as at 31 December 2016 compared to as at 31 December 2015 was primarily due to the decrease of total current assets as a result of a decrease in amount from related parties as at 31 December 2016.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group had net assets of approximately RMB174.6 million, RMB279.0 million, RMB72.7 million and RMB168.6 million, respectively. The gearing ratio (being net debt divided by total capital plus net debt) as at 31 December 2014, 2015 and 2016 were approximately 79.4%, 70.9% and 89.7%, respectively. The decrease in gearing ratio as at 31 December 2015 was mainly due to an increase in the total equity outpaced the increase in the total debt balance from 31 December 2014 to 31 December 2015. The Target Group did not have any debt as at 30 June 2017.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, inventories of the Target Group amounted to approximately RMB261.9 million, RMB265.6 million, RMB285.2 million and RMB305.4 million, respectively.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, trade and notes receivables of the Target Group amounted to approximately RMB130.5 million, RMB156.9 million, RMB201.8 million and RMB270.7 million, respectively. The increase in trade and notes receivables was primarily due to change in payment terms with a key account online retail platform.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, amounts due from related parties of the Target Group amounted to approximately RMB314.1 million, RMB400.5 million, RMB17.1 million and RMB209.1 million, respectively. The increase in amounts due from related parties as at 31 December 2015 compared to the corresponding amount as at 31 December 2014 was primarily due to an increase in the amounts due from GCCL. The significant decrease in amounts due from related parties as at 31 December 2016 was primarily due to a decrease in the amounts due from GCCL where the amounts due from GCCL were categorized as allocation of profits.

The Target Group had amounts due to related parties (amounts due to the Company for purchase of strollers and bicycles) of approximately RMB307.1 million, RMB262.6 million, RMB255.0 million and RMB414.5 million, respectively, as at 31 December 2014, 2015 and 2016 and 30 June 2017. The amounts due to related parties decreased by approximately 14.5% as at 31 December 2015 as compared to 31 December 2014, which was primarily due to settlement of payable to the Group for the purchase of durable juvenile products. The amounts due to related parties increased by approximately 62.6% as at 30 June 2017 as compared to 31 December 2016 was primarily due to increase in payable to the Group for the purchase of durable juvenile products for sales in high season.

The Target Group had other payables and accruals of approximately RMB96.5 million, RMB90.0 million, RMB160.1 million and RMB211.1 million, respectively, as at 31 December 2014, 2015 and 2016 and 30 June 2017. Other payables and accruals decreased by approximately 6.8% as at 31 December 2015 as compared to 31 December 2014, which was primarily due to a decrease of approximately RMB14.9 million in non-interest-bearing and repayable on demand. Other payables and accruals increased by approximately 77.9% as at 31 December 2016 as compared to 31 December 2015 was primarily due to the increase in advances from customers. Other payables and accruals increased by approximately 31.9% as at 30 June 2017 as compared 31 December 2016 was primarily due to (i) an increase of repayable on demand as a result of provisions for advertising fees and transportation fees and (ii) an increase of advances from customers.

The Target Group had trade payable of approximately RMB86.6 million, RMB92.3 million, RMB109.1 million and RMB108.7 million, respectively, as at 31 December 2014, 2015 and 2016 and 30 June 2017. The trade payable increased by approximately 6.7% as at 31 December 2015 as compared to 31 December 2014 and further increased by approximately 18.1% as at 31 December 2016 as compared to 31 December 2015. The increase was primarily due to an increase of procurement along with the development of the Target Group's business. The slight decrease as at 30 June 2017 compared to as at 31 December 2016 was primarily due to the increase of procurement for sales event such as Double 11 in the last quarter of 2016.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, short-term borrowing was approximately RMB115.0 million, RMB110.0 million, nil and nil, respectively. The interest rate for the short-term borrowings were ranged from 4.6% to 5.3% in 2014 and 2015.

Capital structure

The Target Company was incorporated on 13 November 2015 with limited liability in the Samoa. On 11 April 2016, a total of 1 share was allotted and issued by the Target Company to GBC. As a result, the entire issued share capital of the Target Company was wholly owned by GBC. For each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Company did not declare or pay any dividend.

Treasury policies

During the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group usually financed its working capital through internal funds and short term loans. To manage liquidity risk, the management of the Target Group closely monitors the liquidity position to ensure that the liquidity structure of the Target Group's assets, liabilities and commitments can meet its funding requirements.

Capital expenditures

For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, capital expenditure of approximately RMB32.7 million, RMB18.6 million, RMB30.3 million and RMB6.2 million were incurred, respectively, representing the additions to property, plant and equipment.

Significant investments and material acquisition and disposals

The Target Group did not have any significant investment or material acquisition and disposal for each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

Employees and remuneration policies

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the total number of employees of the Target Group were 3,768, 3,929, 3,941 and 4,025, respectively. The employee benefit expense for the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 were approximately RMB237.0 million, RMB241.2 million, RMB250.0 million, RMB127.8 million and RMB141.2 million, respectively. The increase in number of employees was mainly due to an increase in numbers of offline stores along with our business development. Each of the employees is member of the state-managed retirement benefit plan (for employees of the Target Group's subsidiaries in the PRC).

Foreign exchange exposure

The cash and bank balances of the Target Group were denominated in Renminbi. The business operation of the Target Group had been primarily conducted in Renminbi. During each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the impact of fluctuations in foreign currency on the Target Group were generally minimal and the Target Group did not have any foreign currency hedging policy. The Target Group does not use financial instruments for hedging purpose. No foreign currency net investments are hedged by currency borrowings or other hedging instruments. However, the management of the Target Group monitors foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group did not have any contingent liabilities.

Commitments

Except for the operating leases commitments, the Target Group did not have other commitment as at 31 December 2014, 2015 and 2016 and 30 June 2017.

Pledge of assets

As at 31 December 2014, 2015 and 2016 and 30 June 2017, no assets were pledged.

Future plans for material investment and capital assets and new business

As at the Last Practicable Date, the Target Group had no future plan for material investment and capital assets and new business.

INDEBTEDNESS STATEMENT

As at the close of business on 31 July 2017, being the latest practicable date for this statement of indebtedness prior to the printing of this circular, the Target Group did not have any outstanding bank loans, debt securities, charges, mortgages, or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

Material Change

On 24 July 2017, the Company and the Vendor entered into the agreement in respect of the Acquisition, pursuant to which the Company has conditionally agreed to acquire from the Vendor, the Sale Share, being the entire issued capital of Target as at Completion. Before Completion, the Target Group shall undergo Restructuring, which involved, among others, transfer of equity interests of certain companies in the Target Group.

Save as disclosed above, the Directors confirmed that there has been no material change in the financial or trading position or outlook of the Target Group since 30 June 2017, the date to which the latest published audited consolidated financial statements of the Target Group were made up.

Litigation

As at the Latest Practicable Date, none of the Target or its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim ofmaterial importance was known to its directors to be pending or threatened against the Target or any of its subsidiaries.

INTRODUCTION OF THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(I) Basis of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The following is the unaudited pro forma consolidated statement of assets and liabilities, which consists of the pro forma consolidated statement of financial position of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (the "Group") and Oasis Gragon Limited (the "Target Company") and its subsidiaries (the "Target Group") (collectively referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information"), which has been prepared in accordance with Rule 4.29 of the Main Board Listing Rules for the purpose of illustrating the effect on the assets and liabilities of the Enlarged Group as if the acquisition of 100% of equity interest of the Target Group by the Group (the "Acquisition") had been completed on 30 June 2017.

The Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2017 has been prepared based on the information as set out in:

(a) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017, which has been extracted from the published interim report of the Company for the six months ended 30 June 2017;

(b) the audited consolidated statement of financial position of the Target Group as at 30 June 2017 as extracted from the accountants' report of the Target Group as set out in Appendix IIA to this Circular; and

(c) after taking into account of the unaudited pro forma adjustments, which are directly attributable to the Acquisition and factually supportable, as described in the notes thereto to demonstrate how the Acquisition might have affected the historical financial information in respect of the Group as if the Acquisition had been completed on 30 June 2017.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in the circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group as at 30 June 2017 or any future date.

(II) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2017	The Target Group as at 30 June 2017	Pro forma adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
NON-CURRENT ASSETS							
Property, plant and equipment	883,491	45,044	—	—	—	—	928,535
Prepaid land lease payments	54,425	—	—	—	—	—	54,425
Goodwill	834,088	1	—	2,777,600	—	—	3,611,689
Other intangible assets	689,404	1,232	—	—	—	—	690,636
Investment in a joint venture	840	—	—	—	—	—	840
Deferred tax assets	129,979	19,044	—	—	—	—	149,023
Other long-term assets	22,150	—	—	—	—	—	22,150
Total non-current assets	2,614,377	65,321	—	2,777,600	—	—	5,457,298
CURRENT ASSETS							
Inventories	1,255,482	352,232	—	—	—	—	1,607,714
Trade and notes receivables	737,801	312,286	—	—	—	—	1,050,087
Prepayments and other receivables	250,058	50,867	—	—	—	—	300,925
Due from related parties	456,034	241,197	—	—	(456,034)	—	241,197
Available-for-sale investments	39,603	—	—	—	—	—	39,603
Cash and cash equivalents	728,592	65,213	780,600	(1,084,432)	—	(46,462)	443,511
Pledged time deposits	117,429	—	—	—	—	—	117,429
Total current assets	3,584,999	1,021,795	780,600	(1,084,432)	(456,034)	(46,462)	3,800,466
CURRENT LIABILITIES							
Trade and notes payables	(1,167,261)	(125,412)	—	—	—	—	(1,292,673)
Other payables, advances from customers and accruals	(587,384)	(243,562)	—	—	—	—	(830,946)
Interest-bearing bank loans and other borrowings	(727,301)	—	—	—	—	—	(727,301)
Income tax payable	(45,433)	(45,455)	—	—	—	—	(90,888)
Provision	(32,197)	—	—	—	—	—	(32,197)
Derivative financial instruments	(24,181)	—	—	—	—	—	(24,181)
Due to related parties	—	(478,174)	—	—	456,034	—	(22,140)
Defined benefit plan liabilities	(390)	—	—	—	—	—	(390)
Dividends payable	(8)	—	—	—	—	—	(8)
Total current liabilities	(2,584,155)	(892,603)	—	—	456,034	—	(3,020,724)

	The Group as at 30 June 2017	The Target Group as at 30 June 2017		Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
NET CURRENT ASSETS	1,000,844	129,192	780,600	(1,084,432)	—	(46,462)	779,742
TOTAL ASSETS LESS CURRENT LIABILITIES	3,615,221	194,513	780,600	1,693,168	—	(46,462)	6,237,040
NON-CURRENT LIABILITIES							
Interest-bearing bank loans and other borrowings	(728,917)	—	(780,600)	—	—	—	(1,509,517)
Provision	(61,197)	—	—	—	—	—	(61,197)
Defined benefit plan liabilities	(8,604)	—	—	—	—	—	(8,604)
Other non-current liabilities	(13,632)	—	—	—	—	—	(13,632)
Deferred tax liabilities	(154,936)	—	—	—	—	—	(154,936)
Total non-current liabilities	(967,286)	—	(780,600)	—	—	—	(1,747,886)
NET ASSETS	2,647,935	194,513	—	1,693,168	—	(46,462)	4,489,154

(III) **Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group**

1. The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 as set out in the Company's published interim report for the six months ended 30 June 2017.

2. The balances were extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2017 as set out in the accountants' report of the Target Group in Appendix IIA to this Circular and converted into Hong Kong dollars using an exchange rate of HKD 1.00 to RMB 0.8669.

3. The pro forma adjustment represents proposed long-term loan of approximately of USD100,000,000 (equivalent to HK$780,600,000 based on the exchange rate of USD1.00 to HK$7.8060) secured by the loan facility commitment to finance the cash consideration payable for the Acquisition.

4. The pro forma adjustment reflects the allocation of the cost of the Acquisition to the identifiable assets and liabilities of the Target Group, which represents:

   (a) Fair value adjustment of the identifiable assets and liabilities of the Target Group

   Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Group in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group will be accounted for at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard No. 3 Business Combinations.

   For the purpose of this Unaudited Pro Forma Financial Information, the directors of the Company had assumed that the carrying values of the identifiable assets and liabilities of the Target Group approximated to their fair values, which will be reassessed on the completion date of the Acquisition together with the fair value assessment of the intangible assets and deferred tax impact in relation to such fair value adjustments.

(b) Recognition of goodwill in relation to the Acquisition

Goodwill of the Enlarged Group represents the excess of the cost of the Acquisition over the estimated fair value of the identifiable net assets of the Target Group. Pursuant to the Agreement, the consideration of the Acquisition approximate to USD360,000,000 (equivalent to HK$ 2,810,160,000 based on the exchange rate of USD1.00 to HK$7.8060), including USD120,485,816 (equivalent to HK$940,512,000 based on the exchange rate of USD1.00 to HK$7.8060) in cash and 536,100,000 shares of the Company, subject to an upward or downward adjustment. The upward adjustment is subject to a cap of US$36,000,000 (after taking into account the net impact of the adjustments in (i) and (ii) below) whereas the downward adjustment is not subject to any cap. The details of adjustments are:

(i) Debt-free and cash-free adjustment:

(A) where the amount of the external debt and external debt equivalent of the Target Group as at Completion is higher than the amount of the cash and cash equivalent of the Target Group as at Completion, the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash within 30 Business Days (as defined in the Agreement) after the date of finalizing the Completion Statement; or

(B) where the amount of the cash and cash equivalent of the Target Group as at Completion is higher than the amount of the external debt and external debt equivalent of the Target Group as at Completion, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser, in cash within 30 Business Days (as defined in the Agreement) after the date of finalizing the Completion Statement, and

(ii) Working capital adjustment:

(A) where the Actual Working Capital is lower than the Reference Working Capital (RMB -12,768,000, equivalent to HK$ -14,728,000 based on the exchange rate of HK$1.00 to RMB0.8669), the consideration shall be reduced by an amount equal to the difference, which is to be settled by the Vendor in cash within 30 Business Days (as defined in the Agreement) after the date of finalizing the Completion Statement; or

(B) where the Actual Working Capital is higher than the Reference Working Capital, the consideration shall be increased by an amount equal to the difference, which is to be settled by the Purchaser in cash within 30 Business Days (as defined in the Agreement) after the date of finalizing the Completion Statement.

For the purpose of the Unaudited Pro Forma Financial Information, the debt-free and cash-free adjustment of HK$260,955,000 is based on cash and cash equivalents plus due from related parties minus income tax payable, deferred tax liabilities and interest-bearing bank loans as at 30 June 2017 and the Actual Working Capital of HK$-131,763,000 is based on inventories plus trade and notes receivables and prepayments and other receivables minus trade and note payables, due to related parties and other payables, advances from customers and accruals as at 30 June 2017.

Based on the above assumptions, for the purpose of the Unaudited Pro Forma Financial Information, the Total Consideration for the Acquisition is assumed to be as follow:

	HK$'000
Consideration	2,810,160
Adjustment for debt-free and cash-free	260,955
Adjustment for working capital adjustment	(117,035)
Total consideration	2,954,080

The adjustment for debt-free and cash-free and the adjustment for working capital adjustment to be recognised by the Group on completion are subject to change on the date of completion and any difference will be adjusted to the total consideration.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Acquisition is analyzed as follows:

	HK$'000
Total consideration	2,954,080
Less: Carrying amounts of the identifiable assets and liabilities to be acquired	194,513
Add: Non-controlling interests	18,033
Goodwill (note 1)	2,777,600

Note 1: For the purpose of this Unaudited Pro Forma Financial Information, the Company has assessed if there is any impairment loss on the goodwill arising from the Acquisition in accordance with the International Accounting Standard No. 36 Impairment of Assets which

is consistent with the Company's accounting policy. The directors of the Company are of the view that, after performing the impairment assessment, there is no impairment indication of the goodwill arising from the Acquisition as set out in the Unaudited Pro Forma Financial Information.

The directors of the Company confirm, as the preparer of the annual financial statements, the basis used in the preparation of the Unaudited Pro Forma Financial Information will be consistent with the accounting policies of the Group, including the principal accounting policies and assumptions of the valuation of the Target Group to be consistently adopted in the first set of the financial statements of the Company after the completion of the Acquisition.

After the completion of the Acquisition, the management will assess the impairment of intangible assets of the Group at each financial year end and will present the first set of the consolidated financial statements of the Company for 2017 audit. The directors of the Company ascertain all applicable disclosure requirements of the annual financial statements will be complied with applicable approved accounting standards.

Even though the impairment assessment will be carried out in the accounting periods in the future, in view of the date of the circular and the balance sheet date of the first set of the financial statements of the Company after the completion of the Acquisition, any significant changes in the assessment of goodwill impairment is not expected. Accordingly, the directors of the Company considered that no significant goodwill impairment is expected in the first set of financial statements after the completion of the Acquisition.

Since the fair value of the identifiable net assets of the Target Group at the date of the completion of the Acquisition may be substantially different from current fair value adjustment estimated in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the goodwill recognized at the completion date of the Acquisition may be different from the amount presented above.

5. The adjustments represent elimination of intra-group balances between the Group and the Target Group which results from sales and purchase of goods.

6. The pro forma adjustment represents the transaction costs of the Acquisition incurred by the Group and the total transaction costs, including legal, accounting and other professional parties are approximately HK$46,462,000.

7. Apart from the Acquisition, no other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2017.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (except for the information relating to the Vendor or the Target Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by the Vendor) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

All the directors of the Vendor jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading

2. MARKET PRICES

(a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date, respectively:

Month	**Closing price per Share** *(HK$)*
27 January 2017	3.38
28 February 2017	3.46
31 March 2017	3.77
28 April 2017	3.53
31 May 2017	3.81
30 June 2017	3.24
24 July 2017 (being the Last Trading Day)	3.28
31 July 2017	3.83
31 August 2017	4.17
1 September 2017 (being the Latest Practicable date)	4.12

(b) The lowest and the highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$3.19 on 23 June 2017 and HK$4.24 on 30 August 2017, respectively.

3. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following Completion were/will be as follows:

(i) As at the Latest Practicable Date

Authorised

		HK$
50,000,000,000	Shares of HK$0.01 each	500,000,000.00

Issued and fully paid or credited as fully paid:

		HK$
1,119,838,000	Shares of HK$0.01 each	11,198,380.00

(ii) Immediately following the Completion

Authorised

		HK$
50,000,000,000	Shares of HK$0.01 each	500,000,000.00

Issued and fully paid or credited as fully paid:

		HK$
1,119,838,000	Shares as at the Latest Practicable Date	11,198,380.00
536,100,000	Consideration Shares to be allotted and issued upon Completion	5,361,000.00
1,655,938,000	Shares	**16,559,380.00**

All the issued Shares rank pari passu with each other in all respects including the rights in respect of capital, dividends and voting.

The Shares are listed and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

Share Option Scheme

As at the Latest Practicable Date, the Company had outstanding share options granted under the Share Option Scheme entitling the holders thereof to subscribe for an aggregate of 70,130,500 Shares, the details of which are set out below:

Number of Share Options	Exercise Price HK$ per Share	Exercise period
173,000	2.12	3 January 2013 to 2 January 2018
1,630,500	2.12	3 January 2015 to 2 January 2018
2,033,500	2.12	3 January 2016 to 2 January 2018
3,263,500	2.12	3 January 2017 to 2 January 2018
10,926,666	3.58	29 September 2017 to 28 September 2024
11,626,666	3.58	29 September 2018 to 28 September 2024
10,926,668	3.58	29 September 2019 to 28 September 2024
6,683,333	3.75	7 October 2018 to 6 October 2025
6,683,333	3.75	7 October 2019 to 6 October 2025
6,683,334	3.75	7 October 2020 to 6 October 2025
1,666,666	3.87	30 August 2017 to 29 August 2023
3,333,334	3.87	30 August 2018 to 29 August 2023
1,500,000	3.88	28 August 2020 to 27 August 2027
1,500,000	3.88	28 August 2021 to 27 August 2027
1,500,000	3.88	28 August 2022 to 27 August 2027
70,130,500		

Except for the issue and allotment of Shares pursuant to the exercise of Share Options set out in the table below, there had been no alteration to the authorised share capital and the issued share capital of the Company since 31 December 2016, being the date on which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

	Number of Shares issued pursuant to the exercise of Share Options	Exercise money
January 2017	48,000	HK$ 101,760.00
April 2017	1,129,000	HK$2,393,480.00
May 2017	1,293,000	HK$2,741,160.00
June 2017	2,003,000	HK$4,246,360.00
July 2017	130,000	HK$ 275,600.00
August 2017	106,000	HK$ 224,720.00
	Total:	HK$9,983,080.00

The aggregate exercise monies were used for general working capital of the Group.

As at the Latest Practicable Date, except for the outstanding Share Options as disclosed above and the proposed allotment and issue of the Consideration Shares upon Completion, the Company had no outstanding convertible securities, options, warrants or conversion rights which affect the Shares.

4. DISCLOSURE OF INTERESTS

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary Shares of the Company

Name of Director	Note	Nature of Interest	Number of Shares Note(1)	Approximate percentage of shareholding
Mr. Song Zhenghuan	(2)(3)	Beneficiary of a trust/ Beneficial owner	259,000,000 (L)	23.13%
Mr. Martin Pos	(3)	Beneficial owner	39,033,498 (L)	3.48%

Notes:

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

(2) Mr. Song is a discretionary beneficiary of a trust of which Credit Suisse Trust Limited is the trustee. See note 2 of the paragraph (b) of this section for further details of this interest. He is also interested in 1,390,000 Share Options granted to him and deemed to be interested in the 1,390,000 underlying Shares within the meaning of Part XV of the SFO in respect of the Shares Options granted to his spouse, Ms. Fu.

(3) Each of the following 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. Liu Tongyou	2,400,000
Mr. Michael Nan Qu	2,400,000
Mr. Wang Haiye	2,400,000
Mr. Jan Rezab	5,000,000
Mr. Ho Kwok Yin, Eric	1,000,000
Mr. Iain Ferguson Bruce	800,000
Mr. Shi Xiaoguang	800,000
Ms. Chiang Yun	800,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders' interests and short positions in the shares and underlying shares

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO:

Interests in the shares and/or underlying shares of the Company

Name	Note	Capacity	Number of Shares/underlying Shares Note (1)	Approximate Percentage of Shareholding
PUD		Beneficial owner	259,000,000 (L)	23.13%
CAEL	(2)	Interest of controlled corporation	259,000,000 (L)	23.13%
Credit Suisse Trust Limited	(2)	Trustee	259,000,000 (L)	23.13%
Grappa Holdings Limited	(2)	Interest of controlled corporation	259,000,000 (L)	23.13%
Ms. Fu	(2)(3)	Settlor/ beneficiary of a trust/ Beneficial owner	261,780,000 (L)	23.38%
FIL Limited		Investment manager	119,283,000 (L)	10.65%
Fidelity Funds		Beneficial owner	80,835,000(L)	7.22%
Pioneer Asset Management S.A.		Investment manager	67,418,000(L)	6.02%
Pioneer Investments Management Limited		Investment manager	78,170,000 (L)	6.98%

Notes:

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

(2) PUD is owned as to approximately 51.19% by CAEL, which in turn is, as at the Latest Practicable Date, a wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and their family members. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.

(3) Ms. Fu has an interest in the 1,390,000 underlying Shares within the meaning of Part XV of the SFO in respect of the Share Options granted to her and she is also deemed to have an interest in the 1,390,000 underlying Shares within the meaning of Part XV of the SFO in respect of the Share Options granted to her spouse, Mr. Song.

Except (i) as disclosed above; (ii) the Vendor's interest in the Consideration Shares; and (iii) PUD, CAEL, SGIL, ROSL and SIML which will receive Shares upon completion of the Distribution, so far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date:

(i) none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation;

(ii) except for :

(a) Mr. Liu's appointment letter, which is neither an amendment nor a replacement of earlier contract, relating to his appointment as an Executive Director for an initial term of three years commencing from 21 February 2017 subject to a director fee and salary at RMB2,000,000 per annum after tax with discretionary bonus to be determined with reference to his target performance of the relevant year.

(b) Mr. Jin Peng's appointment letter, which is neither an amendment nor a replacement of earlier contract, relating to his appointment as an Executive Director for an initial term of three years commencing from 21 February 2017. Mr Jin is entitled to receive USD30,000 per annum.

there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which (including both continuous and fixed term contracts) had been entered into or amended within the Relevant Period;

(iii) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; and

(iv) except for the service contracts set out below, there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of the notice period.

Name of Director	Commencement date of term of appointment	Term of appointment	Annual remuneration *(Note)*
Mr. Song	24 November 2016	Three years	RMB1,750,000
Mr. Martin Pos	18 March 2017	Three years	Euro 500,000
Mr. Liu	21 February 2017	Three years	RMB2,000,000
Mr. Qu	18 March 2017	Three years	US$408,000
Mr. Wang	24 November 2016	Three years	RMB2,000,000
Mr. Jan Rezab	25 July 2016	Three years	Euro 300,000
Mr. Ho Kwok Yin, Eric	1 February 2016	Three years	US$85,000
Mr. Iain Ferguson Bruce	5 November 2016	Three years	US$60,000
Mr. Shi Xiaoguang	5 November 2016	Three years	US$40,000
Ms. Chiang Yun	23 May 2017	Three years	US$40,000
Mr. Jin Peng	21 February 2017	Three years	US$30,000

Note: Excludes discretionary bonus (if any). Other than Mr. Song, Mr. Martin Pos, Mr. Liu and Mr. Wang whose remunerations are on after tax basis, the remunerations for the rest of the Directors are on before tax basis.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

7. COMPETING INTERESTS

As at the Latest Practicable Date, except for Mr. Song, Mr. Liu, Mr. Wang and Mr. Qu's interest in the Target Group and the Retained Business by virtue of their indirect interest in the Vendor, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

8. INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, except for Mr. Song, Mr. Liu, Mr. Wang and Mr. Qu's interest the Target Company, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at Last Practicable Date, except for Mr. Song, Mr. Liu, Mr. Wang and Mr. Qu's interest in the Agreement, there was no contract or arrangement in which any of the Directors were materially interested and which was significant to the business of the Group.

9. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of each of the experts who has provided advice for inclusion in this circular:

Name	Qualification
Somerley Capital Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

(collectively, the "**Experts**")

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, each of the Experts was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the Experts did not have any direct or indirect interest in any assets which had since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. MATERIAL CONTRACTS

Except for the Agreement, no contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Group after the date two years immediately preceding the date of the Announcement, and up to and including the Latest Practicable Date, and were or may be material.

11. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

i. except for the Charged Consideration Shares as explained in the paragraph headed "Security" under the section "Consideration" of the letter from the Board, there was no agreement, arrangement or understanding pursuant to which the Consideration Shares to be issued to PUD, CAEL, SGIL, ROSL and SIML would be transferred, charged or pledged to any other persons;

ii. except as disclosed under paragraph "4(a) — Disclosure of interests" above in this appendix, none of the Directors, directors of the Vendor, the Vendor, members of the Concert Group owned or controlled or were interested in any other Shares, convertible securities, warrants, options or derivatives of the Company;

iii. Mr. Martin Pos, an executive Director, holds 39,033,498 Shares, representing approximately 3.48% of the issued share capital of the Company. As Mr. Pos is is presumed to be acting in concert with PUD under class (6) presumption until Completion. This class (6) presumption will cease to apply after Completion. Mr. Martin Pos is required to abstain from voting at the EGM. The remaining Directors do not hold any Shares in the Company, hence no Director would be entitled to vote for or against any of the resolutions to be proposed at the SGM to approve the Acquisition and the Whitewash Waiver;

iv. except as set out in notes (1) to (5) of the group structure under the section headed "Information of the Vendor" in the letter from the Board, none of the Company and the Directors owned or controlled or were interested in any shares, convertible securities, warrants, options or derivatives of members of the Concert Group nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives of any member of the Concert Group during the Relevant Period.

v. except for entering into the Agreement, none of the Directors, directors of the Vendor, the Vendor and members of the Concert Group had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;

vi. no person had irrevocably committed themselves to vote for or against the proposed resolutions approving the Acquisition and the Whitewash Waiver;

vii. there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver or otherwise connected with the Acquisition and/or the Whitewash Waiver;

viii. no member of the Concert Group had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;

ix. no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver;

x. no agreement, arrangement or understanding (including any compensation arrangement) existed between members of the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Acquisition and/or the Whitewash Waiver;

xi. neither the Company nor any of the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

xii. no member of the Concert Group had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

xiii. except for the Agreement, there was no material contract entered into by members of the Concert Group in which any Director had a material personal interest.

xiv. none of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company and any advisers to the Company (as specified in class (2) of the definition of associate in the Takeovers Code but excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company or had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

xv. no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

xvi. there was no Shares, convertible securities, warrants, options or derivatives of the Company which were managed on a discretionary basis by fund managers connected with the Company.

12. GENERAL

(a) The registered office of the Vendor is at Harbour Place, 2nd Floor, 103 South Church Street, P.O. Box 472, George Town, Grand Cayman, KY1-1106, Cayman Islands. The correspondence address of the Vendor is at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. The directors of the Vendor are Mr. Song and Ms. Fu. the Vendor is held as to 25.90% by PUD, as to 24.00% by CAEL, as to 22.25% by SGIL, as to 15.10% by ROSL, as to 5.00% by SIML, as to 4.28% by VLVL, as to 1.17% by WAWA, as to 1.15% by FTHL and as to 1.15% by COOP.

(b) The registered office of PUD is at Tricor Services (BVI) Limited, P O Box 3340, Road Town, Tortola, British Virgin Islands. The directors are Mr. Song, Ms. Fu, Mr. Wang, Mr. Liu and Mr. Chen Huaixiao. The shareholding of PUD is explained in note (2) to the structure chart under the paragraph headed "INFORMATION ON THE VENDOR" in the letter from the Board

(c) The registered office of CAEL is at Tricor Services (BVI) Limited, P O Box 3340, Road Town, Tortola, British Virgin Islands. The directors are Mr. Song and Ms. Fu. CAEL is indirectly held by Credit Suisse Trust Limited. Credit Suisse Trust Limited is the trustee holding such interest on trust for the beneficiaries of the Grappa Trust that include Mr. Song, Ms. Fu and their family members.

(d) The registered office of SGIL is at Tricor Services (BVI) Limited, P O Box 3340, Road Town, Tortola, British Virgin Islands. The directors are Mr. Song and Ms. Fu. SGIL is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 16.67% by Mr. Wang, as to 11.11% by Mr. Liu and as to 5.56% by Mr. Qu.

(e) The registered office of ROSL is at Offshore Chambers, P.O. Box 217, Apia, Samoa. The sole director is Ms. Fu. ROSL is indirectly held by Credit Suisse Trust Limited as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the trust and Credit Suisse Trust Limited is the trustee holding such interest on trust for the beneficiaries that include Ms. Fu.

(f) The registered office of the SIML is at Offshore Chambers, P.O. Box 217, Apia, Samoa. The directors are Mr. Liu and Ms. Li Jie. SIML is wholly owned by Mr. Liu.

(g) The business address of each of Mr. Song, Ms. Fu, Ms. Kobler, Mr. Liu, Mr, Wang, Mr. Qu, Mr. Martin Pos and Mr. Jan Rezab is at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(h) The secretary of the Company is Ms. Ho Siu Pik. Ms. Ho is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a holder of the Practitioner 's Endorsement from The Hong Kong Institute of Chartered Secretaries.

(i) The Company's registered office is at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Cayman Island.

(j) The principal place of business of the Company in Hong Kong is Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(k) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(l) The financial advisor to the Company is Morgan Stanley, whose correspondence address is 46th floor International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

(m) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION AND DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection (i) during normal business hours from 9:30 a.m. to 5:00 p.m. on any day (except Saturdays, Sundays and public holidays) at the head office and 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; and (ii) on the websites of the Company (http:// www.gbinternational.com.hk) and the Securities and Futures Commission (www.sfc.hk) from the date of this circular up to and including the date of the EGM.

(a) amended and restated memorandum and articles of association of the Company;

(b) the published annual reports of the Company for each of the financial years ended 31 December 2014, 2015 and 2016;

(c) the letter from the Board as set out in this circular;

(d) the letter from the Independent Board Committee as set out in this circular;

(e) the letter from the Independent Financial Adviser as set out in this circular;

(f) the material contracts referred to under the paragraph headed "MATERIAL CONTRACTS" in this appendix;

(g) the service contracts referred to under the paragraph headed "DIRECTORS' SERVICE CONTRACTS";

(h) the written consent from each of the Experts referred to under the paragraph headed "QUALIFICATION AND CONSENT OF EXPERTS" in this appendix;

(i) the accountants' report from Ernst & Young in respect of the financial information of the Target Group, the text of which is set out in Appendix IIA to this circular;

(j) the report on the unaudited Pro Forma Financial Information of the Enlarged Group from Ernst & Young, the text of which is set out in Appendix IIC of this circular; and

(k) this circular.

Goodbaby International Holdings Limited
好孩子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1086)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the "**Meeting**") of Goodbaby International Holdings Limited (the "**Company**") will be held at 10:00 a.m. on 21 ,September 2017 at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

Words and expressions that are not expressly defined in this notice shall bear the same meaning as that defined in the circular dated 4 September 2017 published by the Company.

1. "**THAT**:

(a) the Agreement (a copy of which has been tabled at the meeting marked "A" and signed by the chairman of the meeting for identification purpose) and all transactions contemplated thereunder, be and are hereby approved, ratified and confirmed, and any one Director be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effect to the Agreement and all transactions contemplated thereunder, including, subject to, the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in the Consideration Shares, the issue and allotment of the Consideration Shares, and any one Director be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the issue and allotment of the Consideration Shares.

(b) subject to and conditional upon the passing of resolution numbered 1(a) above, the Whitewash Waiver granted or to be granted by the Executive be and is hereby approved and any one Director be and is hereby authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the Whitewash Waiver."

By Order of the Board
Goodbaby International Holdings Limited
SONG Zhenghuan
Chairman

Hong Kong, 4 September 2017

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the meeting.

5. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should you so wish, and in such an event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

CLOSURE OF SHAREHOLDERS' REGISTER

For the purpose of determining the list of shareholders who are entitled to attend and vote at the EGM, the shareholders' register of the Company will be closed on Monday, 18 September 2017 to Thursday, 21 September 2017 (both days inclusive). No transfer of shares of the Company will be registered during both days. In order to qualify to attend and vote at the Meeting, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 15 September 2017.

As at the date of this notice, the executive Directors are Mr. SONG Zhenghuan, Mr. Martin POS, Mr. LIU Tongyou, Mr. Michael Nan QU, Mr. WANG Haiye and Mr. Jan REZAB; the non-executive Director is Mr. HO Kwok Yin, Eric; and the independent non-executive Directors are Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang, Ms. CHIANG Yun and Mr. JIN Peng.