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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2018	2017	Year-on-year change
	(HK$ in millions, unless specified)		
Revenue	4,425.7	3,295.6	34.3%
Gross profit	1,859.1	1,195.1	55.6%
Operating profit[1]	217.1	179.4	21.0%
Non-GAAP[2] operating profit	284.2	194.7	46.0%
Profit for the period	134.2	125.9	6.6%
Non-GAAP profit for the period	188.8	139.8	35.1%
Profit for the period attributable to owners of the parent	132.9	124.7	6.6%
EPS (HK$)			
- basic	0.08	0.11	-27.3%
- diluted	0.08	0.11	-27.3%

Notes:

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

2. We adopted non-GAAP financial measures in order to more meaningfully illustrate the financial results of the Group's ordinary business, and to be more consistent with what we believe to be the industry practice. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies. Please refer to the section headed "Non-GAAP Financial Measures" of this announcement for details.

The board (the "**Board**") of directors ("**Directors**") of Goodbaby International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to present the unaudited consolidated interim results of the Group for the six months ended 30 June 2018 (the "**Period**"), together with the comparative figures for the corresponding period in 2017.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the six months ended 30 June 2018** *(unaudited) (HK$'000)*	**2017** *(unaudited) (HK$'000)*
Revenue	4	4,425,702	3,295,589
Cost of sales		(2,566,559)	(2,100,534)
Gross profit		1,859,143	1,195,055
Other income and gains	4	43,649	10,356
Selling and distribution costs		(1,061,587)	(530,092)
Administrative expenses		(611,748)	(481,608)
Other expenses		(12,407)	(14,285)
Operating profit		217,050	179,426
Finance income	5	1,725	1,794
Finance costs	6	(57,357)	(29,011)
Share of profits of joint ventures		402	—
Profit before tax	7	161,820	152,209
Income tax expense	8	(27,631)	(26,286)
Profit for the period		134,189	125,923
Attributable to:			
Owners of the parent		132,940	124,704
Non-controlling interests		1,249	1,219
		134,189	125,923
Earnings per share attributable to ordinary equity holders of the parent:	10		
Basic			
- For profit for the period (HK$)		0.08	0.11
Diluted			
- For profit for the period (HK$)		0.08	0.11

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2018	**2017**
	(unaudited)	*(unaudited)*
	(HK$'000)	*(HK$'000)*
Profit for the period	134,189	125,923
Other comprehensive income/(loss)		
Other comprehensive income/(loss) 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	25,794	(24,181)
Reclassification adjustments for (gains)/losses included in the consolidated statement of profit or loss	(17,574)	7,840
Income tax effect	(2,687)	2,451
	5,533	(13,890)
Exchange differences:		
Exchange differences on translation of foreign operations	(81,623)	92,617
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(76,090)	78,727
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses)/gains of defined benefit plans	(1,135)	5,199
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods	(1,135)	5,199
Other comprehensive (loss)/income for the period, net of tax	(77,225)	83,926
Total comprehensive income for the period	56,964	209,849
Attributable to:		
Owners of the parent	54,275	207,652
Non-controlling interests	2,689	2,197
	56,964	209,849

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	**30 June 2018** *(unaudited)* *(HK$'000)*	**31 December 2017** *(audited)* *(HK$'000)*
NON-CURRENT ASSETS			
Property, plant and equipment		1,052,899	1,040,743
Prepaid land lease payments		54,057	55,740
Goodwill		2,762,930	2,789,325
Other intangible assets		2,329,906	2,371,199
Investment in joint ventures		5,002	5,216
Deferred tax assets		146,418	112,980
Other long-term assets		8,375	7,224
Total non-current assets		6,359,587	6,382,427
CURRENT ASSETS			
Inventories	11	1,641,157	1,861,276
Trade and notes receivables	12	1,197,743	1,171,738
Prepayments and other receivables		411,012	337,215
Due from a related party		632	—
Available-for-sale investments	13	—	138,088
Derivative financial instruments	16	35,439	22,250
Cash and cash equivalents		831,061	952,153
Time deposits		—	84,054
Pledged time deposits		16,806	15,370
Total current assets		4,133,850	4,582,144
CURRENT LIABILITIES			
Trade and notes payables	14	1,190,158	1,312,573
Other payables, advances from customers and accruals		780,818	904,996
Interest-bearing bank loans and other borrowing	15	1,234,245	1,341,663
Due to related parties		3,893	99,143
Income tax payable		48,589	55,483
Provisions		37,027	39,200
Derivative financial instruments	16	6,575	4,408
Defined benefit plan liabilities		392	391
Dividends payable		8	8
Total current liabilities		3,301,705	3,757,865

	Notes	30 June 2018 *(unaudited)* *(HK$'000)*	31 December 2017 *(audited)* *(HK$'000)*
NET CURRENT ASSETS		832,145	824,279
TOTAL ASSETS LESS CURRENT LIABILITIES		7,191,732	7,206,706
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowing	15	1,390,263	1,395,136
Provisions		52,847	54,717
Defined benefit plan liabilities		13,873	11,049
Other liabilities		15,028	14,089
Deferred tax liabilities		568,682	565,848
Total non-current liabilities		2,040,693	2,040,839
Net assets		5,151,039	5,165,867
EQUITY			
Equity attributable to owners of the parent			
Share capital		16,680	16,662
Reserves		5,078,714	5,091,222
		5,095,394	5,107,884
Non-controlling interests		55,645	57,983
Total equity		5,151,039	5,165,867

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Goodbaby International Holdings Limited and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 were authorized for issue in accordance with a resolution of directors on 28 August 2018.

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

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. These financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

The Group has adopted the following revised IFRSs for the first time in these interim condensed consolidated financial statements.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 40	Transfers of Investment Property
IFRIC-22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The effect of adopting IFRS 15 is as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of IAS 11, IAS 18 and related Interpretations and;

- As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of IAS 11, IAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information under IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for financial instruments in the scope of IFRS 9. Therefore, the comparative information is reported under IAS 39 and is not comparable to the information presented for the six months ended 30 June 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under IAS 39.

As of 1 January 2018, the category of loans and receivables under IAS 39, including cash and cash equivalents, restricted and time deposits, trade and notes receivables, financial assets included in prepayments, deposits and other receivables and due from related parties, were transferred to debt instruments at amortised cost under IFRS 9.

In addition to such change in classification, IFRS 9 has no significant impact on the Group.

Changes to the impairment calculation

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. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and notes receivables. The Group applies the general approach of financial assets included in prepayments, deposits and other receivables and amounts due from related parties.

All the other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

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

(a) Strollers and accessories segment, which engages in the research, design, manufacture and sale of strollers and accessories under the Group's own brands and third parties' brands;

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

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

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

Six months ended 30 June 2018

	Strollers and accessories *(HK$'000)* *(Unaudited)*	**Car seats and accessories** *(HK$'000)* *(Unaudited)*	**Others** *(HK$'000)* *(Unaudited)*	**Consolidated** *(HK$'000)* *(Unaudited)*
Segment revenue				
Sales to external customers	1,379,905	1,473,938	1,571,859	4,425,702
Segment results	556,677	687,661	614,805	1,859,143
Reconciliation:				
Other income and gains				43,649
Corporate and other unallocated expenses				(1,673,335)
Other expenses				(12,407)
Finance income				1,725
Finance costs				(57,357)
Share of profits and losses of joint ventures				402
Profit before tax				161,820
Other segment information:				
Impairment losses recognised in the statement of profit or loss	5,767	6,239	6,611	18,617
Depreciation and amortisation	65,551	47,550	35,752	148,853

Six months ended 30 June 2017

	Strollers and accessories (HK$'000) (Unaudited)	Car seats and accessories (HK$'000) (Unaudited)	Others (HK$'000) (Unaudited)	Consolidated (HK$'000) (Unaudited)
Segment revenue				
Sales to external customers	1,172,894	1,369,893	752,802	3,295,589
Segment results	404,271	591,689	199,095	1,195,055
Reconciliation:				
Other income and gains				10,356
Corporate and other unallocated expenses				(1,011,700)
Other expenses				(14,285)
Finance income				1,794
Finance costs				(29,011)
Profit before tax				152,209
Other segment information:				
Impairment losses recognised in the statement of profit or loss	2,884	756	—	3,640
Depreciation and amortisation	43,940	35,571	24,425	103,936

Geographical information

(a) ***Revenue from external customers***

	European market (HK$'000) (Unaudited)	North America market (HK$'000) (Unaudited)	Mainland China market (HK$'000) (Unaudited)	Other overseas markets (HK$'000) (Unaudited)	Total (HK$'000) (Unaudited)
Six months ended 30 June 2018					
Segment revenue:					
Sales to external customers	1,121,415	1,358,354	1,709,312	236,621	4,425,702
Six months ended 30 June 2017					
Segment revenue:					
Sales to external customers	933,443	1,352,571	745,454	264,121	3,295,589

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

(b) ***Non-current assets***

	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Audited)*
Mainland China	4,320,846	4,360,049
North America	1,020,990	1,023,544
Europe	866,331	879,492
	6,208,167	6,263,085

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

Information about a major customer

During the six months ended 30 June 2018, 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$497,277,000 (During the six months ended 30 June 2017: HK$489,551,000). The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and others segments, including sales to a group of entities which are known to be under common control with this customer. There was no other single customer accounted for 10% or more of the total net sales of the Group.

4. REVENUE AND OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
Revenue:		
Sales of goods	4,425,702	3,295,589
Other income and gains:		
Government grants (note (a))	34,063	3,178
Compensation income (note (b))	2,620	2,328
Gain on sale of materials	101	921
Net foreign exchange gains	—	607
Service fee income (note (c))	1,799	313
Gain on wealth investment products	402	215
Others	4,664	2,794
Total	43,649	10,356

Note (a): The amount represents subsidies received from local government authorities in connection with certain financial support to local business enterprises. These government subsidies mainly comprised subsidies for export activities, subsidies for development, and other miscellaneous subsidies and incentives for various purposes. The amount of these government grants is determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government grants in the future. There is no unfulfilled condition or contingency attaching to these grants and they are recognised in the period of receipt or obtaining the relevant approvals.

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

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

With the adoption of IFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including sales of goods above, for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June 2018
Type of goods or service	
Sales of goods and total revenue from contracts with customers	4,425,702
Timing of revenue recognition	
Goods transferred at a point in time and total revenue from contracts with customer	4,425,702

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2018 is included in note 3.

5· FINANCE INCOME

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
- Interest income on bank deposits	1,725	1,794

6. FINANCE COSTS

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
- Interest expense on bank loans and other borrowing	57,357	29,011

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
Cost of inventories sold	2,566,559	2,100,534
Depreciation of property, plant and equipment	123,311	89,937
Amortisation of intangible assets	24,485	12,808
Amortisation of prepaid land lease payments	1,057	1,191
Research and development costs	172,034	148,530
Lease payments under operating leases in respect of properties	80,961	42,143
Auditors' remuneration	5,028	6,026
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	861,693	644,633
Share option expense	10,301	8,047
Pension scheme costs (defined benefit plans)	1,618	1,227
Pension scheme contributions	35,462	17,552
	909,074	671,459
Net foreign exchange losses/(gains)	6,730	(607)
Fair value losses, net:		
Cash flow hedges (transfer from equity)	—	7,840
Impairment of receivables	28,034	311
Product warranties and liabilities	10,208	15,637
(Reversal of)/write-down of inventories	(9,417)	3,329
Loss on disposal of items of property, plant and equipment	3,356	3,623
Bank interest income	(1,725)	(1,794)

8. INCOME TAX EXPENSE

The Company and its subsidiaries incorporated in the Cayman Islands and Samoa are exempted from taxation.

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

State income tax and federal income tax of the Group's subsidiaries in the United States have been provided for at rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the period. The state income tax rates are from 5% to 9.99% in the respective states where the subsidiary operates, and the federal income tax rates range from 34% to 35% on a progressive basis. The federal income tax rate was lowered to 21% effective from 1 January 2018, as a result of U.S. tax reform enacted in December 2017.

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

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

The Group's 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") at the rate of 25% on the taxable income as reported in their PRC statutory accounts adjusted in accordance with the law of the PRC on Enterprise Income Tax (the "EIT Law").

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, two of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") and Jiangsu EQO Testing Services Co., Ltd. ("EQTC") are qualified as "High and New Technology Enterprises" and are entitled to a preferential tax rate of 15% from 2017 to 2019 and 2016 to 2018 respectively.

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

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
Current - income tax		
- Charge for the period	51,480	23,242
Deferred Income tax	(23,849)	3,044
Income tax expense recognised in the statement of profit or loss	27,631	26,286

9. DIVIDENDS

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,666,999,000 in issue during the six months ended 30 June 2018 (six months ended 30 June 2017: 1,115,607,000).

The calculation of diluted earnings per share amounts is based on the profit for the period 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 period, 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 calculations of the basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2018	**2017**
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	132,940	124,704

	Number of shares	
	Six months ended 30 June	
	2018	**2017**
	('000)	*('000)*
	(Unaudited)	*(Unaudited)*
Shares Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,666,999	1,115,607
Effect of dilution-weighted average number of ordinary shares:		
Share options	8,012	2,895
Total	**1,675,011**	**1,118,502**

11. INVENTORIES

	As at 30 June 2018 *(HK$'000)* *(Unaudited)*	As at 31 December 2017 *(HK$'000)* *(Audited)*
Raw materials	283,696	370,746
Work in progress	57,896	77,049
Finished goods	1,299,565	1,413,481
	1,641,157	1,861,276

12. TRADE AND NOTES RECEIVABLES

	As at 30 June 2018 *(HK$'000)* *(Unaudited)*	As at 31 December 2017 *(HK$'000)* *(Audited)*
Trade receivables	1,261,515	1,209,152
Notes receivables	6,760	6,280
	1,268,275	1,215,432
Impairment for trade receivables	(70,532)	(43,694)
	1,197,743	1,171,738

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

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

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

	As at 30 June 2018 (HK$'000) (Unaudited)	As at 31 December 2017 (HK$'000) (Audited)
Within 3 months	1,055,360	1,020,758
3 to 6 months	34,430	138,752
6 months to 1 year	88,681	5,614
Over 1 year	12,512	334
	1,190,983	1,165,458

13. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2018 (HK$'000) (Unaudited)	As at 31 December 2017 (HK$'000) (Audited)
Unlisted investments, at fair value	—	138,088

The above investments consist of investments in wealth investment products which are designated as available-for-sale financial assets and have maturity within one month and coupon rates ranging from 2.2% to 3.5% per annum for the year ended 31 December 2017.

The wealth investment products were all matured in January 2018 with principals and interests fully received.

14. TRADE AND NOTES PAYABLES

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

	As at 30 June 2018 *(HK$'000)* *(Unaudited)*	As at 31 December 2017 *(HK$'000)* *(Audited)*
Within 3 months	1,001,959	1,162,294
3 to 12 months	187,134	144,549
1 to 2 years	416	5,428
2 to 3 years	514	108
Over 3 years	135	194
	1,190,158	1,312,573

The trade and notes payables are non-interest-bearing and normally settled on terms of 60 to 90 days. The carrying amounts of the trade and notes payables approximate to their fair values due to their short term maturity.

15. INTEREST—BEARING BANK LOANS AND OTHER BORROWING

		As at 30 June 2018		As at 31 December 2017	
		Maturity	*HK$'000* *(Unaudited)*	*Maturity*	*HK$'000* *(Audited)*
Current					
Bank borrowings — secured	Note(b)	2018-2019	721,052	2018	562,687
Bank borrowings — unsecured		2018	220,518	2018	247,793
Bank overdraft — secured	Note(a)	On demand	26,573	2018	158,724
Current portion of long-term bank loans — secured	Note(b)	2018-2019	264,846	2018	371,834
Promissory note	Note(c)	2018	1,256	2018	625
			1,234,245		1,341,663
Non-current					
Bank borrowings — secured	Note(b)	2019-2021	1,389,007	2019-2021	1,393,260
Promissory note	Note(c)	2021	1,256	2021	1,876
			1,390,263		1,395,136
Total			2,624,508		2,736,799

Note (a): The bank overdraft was guaranteed by the Company.

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

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

(ii) A standby letter of credit from certain banks issued by a subsidiary of the Group;

(iii) The guarantee from the Company.

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

Note (d): The effective interest rates of the bank loans and other borrowing range from 0.60% to 6% (2017: 0.65% to 6%).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2018	
	Assets	*Liabilities*
	(HK$'000)	*(HK$'000)*
	(Unaudited)	*(Unaudited)*
Forward currency contracts		
- designated as hedging instruments	35,439	6,575
	35,439	6,575

	As at 31 December 2017	
	Assets	*Liabilities*
	(HK$'000)	*(HK$'000)*
	(Audited)	*(Audited)*
Forward currency contracts		
- designated as hedging instruments	18,816	4,408
- not designated as hedging instruments	3,434	—
	22,250	4,408

Forward currency contracts — cash flow hedges

Forward currency contracts are designated as hedging instruments in respect of forecast future external and intragroup sales in foreign currencies. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward currency contracts match the terms of the commitments. The cash flow hedges relating to external and intragroup sales in 2018 were assessed to be highly effective and net gains of HK$5,533,000 were included in the hedging reserve as follows:

	As at 30 June 2018 *(HK$'000)* *(Unaudited)*
Total fair value gains included in the hedging reserve	25,794
Deferred tax on fair value gains	(5,156)
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(17,574)
Deferred tax on reclassifications to profit or loss	2,469
Net gains on cash flow hedges	5,533

	As at 31 December 2017 *(HK$'000)* *(Audited)*
Total fair value losses included in the hedging reserve	(4,806)
Deferred tax on fair value losses	91
Reclassified from other comprehensive income and recognised in the statement of profit or loss	20,165
Deferred tax on reclassifications to profit or loss	(2,990)
Net gains on cash flow hedges	12,460

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

As reported, we recorded growth in revenue and operating profit for the Period. Our revenue for the Period increased by 34.3% to approximately HK$4,425.7 million from HK$3,295.6 million for the corresponding period in 2017. Our reported gross profit increased by 55.6% to HK$1,859.1 million for the Period from HK$1,195.1 million for the corresponding period in 2017. Our reported operating profit increased by 21.0% to HK$217.1 million for the Period from HK$179.4 million for the corresponding period in 2017 and on a non-GAAP basis, our operating profit increased by 46.0% to approximately HK$284.2 million for the Period from approximately HK$194.7 million for the corresponding period in 2017.

On a pro forma non-GAAP basis[1] , our revenues for the Period increased by 6.1% to approximately HK$4,425.7 million vs. approximately HK$4,172.2 million for the corresponding period in 2017, and operating profit decreased 19.3% to approximately HK$289.0 million from HK$358.1 million in the same period 2017.

During the Period, we realized strong performance from :

- Cybex global performance fueled by new product introductions and channel expansion. During the Period, we recorded approximately HK$955.8 million revenue from Cybex brand, representing 24.9% year-on-year growth;

- gb non-durables business in China market and gb durables business in international markets with rebranded products / image. During the Period, we recorded approximately HK$832.8 million and HK$167.1 million revenue from gb non-durables business in China and gb durables business in international market representing 27.7% and 68.1% year-on-year growth respectively; and

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

- Rebound of Blue Chip business. During the Period, we recorded approximately HK$611.5 million revenue from Blue Chip business representing 8.8% year-on-year growth.

and were negatively impacted by:

- Bankruptcy liquidation of Toys R Us, Inc. ("TRU") and its subsidiary Babies R Us ("BRU"). In the first half 2018, we continued to be impacted by the late 2017 bankruptcy, and ultimate liquidation in early 2018, of TRU and its subsidiary BRU. While this liquidation negatively impacted the overall results of our Evenflo strategic brand, it directly negatively impacted the results of our toy based business segment which includes our Rollplay toy brand plus the Exersaucer toy sub-brand within the Evenflo brand. As a result, we recorded a HK$27.6 million provision for bad debt allowance for the Period related to our TRU/BRU receivables. In addition, our revenues were negatively impacted for the Period as we significantly reduced our shipments to TRU/BRU beginning September 2017 and ultimately stopped shipments to TRU/BRU in February 2018. The consolidated revenues to TRU/BRU for the Period approximated HK$37.0 million, compared to HK$135.9 million in the corresponding period in 2017. Excluding the impact of the TRU/BRU liquidation, our consolidated revenues on a pro forma basis increased approximately 8.7%.

- Declines in the China market durables performance primarily due to higher organizational prioritization during the transition toward our consumer centric retail model which currently features non durable products. Consequently, while our China market gb branded non-durable business continued to generate strong growth approaching 30%, revenue of gb durables in China market decreased to approximately HK$576.0 million for the Period from HK$695.6 million in the corresponding period 2017. We fully expect our China market durables performance to return to historical growth levels as the durables portfolio regains a higher profile in our consumer centric retail model.

EXECUTIVE SUMMARY

Continued commitment to our strategic brands

Our key strategic brands of Cybex, gb and Evenflo recorded an overall 8.3% growth in revenue. Cybex, gb and Evenflo recorded revenue of approximately HK$955.8 million, HK$1,576.3 million and HK$839.2 million respectively, representing growth of 24.9%, 8.8% and a decline of 6.6%, respectively, compared to the first half of 2017. As a result, our key strategic brands represent approximately 76% of total revenues for the Period compared to 75% for the corresponding period in 2017.

- ***Region APAC***

  In the China market, we recorded revenue of approximately HK$1,709.3 million in the Period against HK$1,622.0 million in the corresponding period in 2017.

This overall increase of 5.4% is primarily driven by the continued strong profitable growth of 27.7% in the non-durables sector. In non-durables, we recorded 26.2% growth in baby care and 30.5% growth in apparel and home textile products. Offsetting this increase is a 17.2% decline in gb durable products resulting from higher organizational prioritization during the transition toward our consumer centric retail model which currently features non durable products.

Supported by continued new product introductions and further channel development, our Cybex brand realized 76.6% growth in the China market in the first six months of 2018 vs. the same period in 2017.

Revenue outside China declined by 13.5% to approximately HK$156.6 million in the Period from approximately HK$181.0 million in the corresponding period in 2017. The decline is directly attributable to the negative impact of Rollplay revenues related to the TRU bankruptcy and liquidation and to the impact of the strategic closure of our Geoby brand business in 2016. Revenues outside China will begin to stabilize as the TRU and Geoby impact diminishes.

As an offset, our non-wholly owned distribution platform formed in Japan in March 2018 has already started to produce impressive revenue results focusing initially on the Cybex product line. During the Period, our revenue generated in Japan increased by 143% compared to the corresponding period in 2017.

- ***Region EMEA***

  Our EMEA revenues for the Period approximated HK$995.2 million, as compared to HK$787.0 million for the corresponding period in 2017. Our EMEA growth of 26.5% was achieved as a result of strong consumer reception to our brand building and new product introductions from 2017. Our impressive growth in EMEA was partially subdued due to a challenging retail market in the UK, as all other key Euro countries including Germany achieved strong growth.

The past investments in repositioning the gb brand as a technical/lifestyle premium brand continue to pay dividends as evidenced by 91.4% growth in total EMEA revenues to approximately HK$161.8 million for the Period as compared to HK$84.5 million for the corresponding period in 2017.

Despite the UK market challenges, Cybex sustained strong growth of nearly 22% with revenues approximating HK$835.1 million during the Period. We fully expect Cybex to continue its strong growth rates in the second half of 2018.

The strong expansion in both Cybex and gb brands was mainly caused by a robust car seat performance and a strong development in wheeled (strollers) and home goods supported by new product launches.

The overall successful channel and product strategy combined with further efficiency gains in operations and supply chain are expected to support the Group's profitability further.

- ***Region Americas***

The North American retail market challenges from late 2017 remain in 2018, primarily due to the ultimate bankruptcy liquidation of TRU/BRU. This has resulted in a significant amount of available inventory in the market, placing top-line growth pressures on all juvenile product manufacturers. Revenue for the Americas region declined approximately 6.6% as a result of these challenges, with recorded revenue in the Period of approximately HK$953.1 million as compared to HK$1,020.3 million for the corresponding period in 2017. Excluding the impact of the TRU/BRU liquidation, Americas achieved a 1.2% revenue growth rate during the Period in all other channels. We expect the overall impact of TRU/BRU will diminish in the second half of 2018 and are confident our future new product placements will drive a return to overall growth. We continue to focus our efforts and investments on brand building, developing and launching key new products focused on meeting consumer-driven needs, and ensuring optimized alignment of our distribution channels to drive sustainable growth.

In addition, our Cybex brand continues to realize rapid growth as it introduces additional consumer oriented product solutions that reinforce Cybex as the premier premium technical/lifestyle brand. Cybex revenue increased 18.1% in the Period compared to the corresponding period in 2017.

Blue Chip

Following our stable performance in the second half of 2017, our Blue Chip business realized growth of 8.8% in the Period compared to the corresponding period in 2017. We recorded revenue of HK$611.5 million in the Period, compared to HK$561.8 million in the corresponding period in 2017. We achieved these results by continuously working in close cooperation with our Blue Chip customers to provide outstanding manufacturing, research and development and overall service capabilities.

Innovation and technology

In our seven R&D centers across the world, dedicated experts are merging their knowledge and experience to develop one of a kind products. Passionate engineers and designers combine extraordinary design and world class engineering to deliver smart products which not only fulfill market demands, but exceed them. Our reorganized engineering team and regional competence centers allow us to streamline processes and improve time to market. During the Period, more than 200 new products were developed across the Group and more than 120 patents were filed.

In 2018 to date, our Group celebrated several design awards including the “Best of the Best” Red Dot Award for the Cybex Lemo high chair and gb Swan carbon fiber stroller. Additional Red Dot Awards were achieved for the Cybex ultra-compact stroller Eezy S Twist and the Cybex 3-in-1 travel system Balios S. Additionally, the Cybex car seat Sirona M with SensorSafe 2.0 has been rated “The best of BabyTech 2018” at the Consumer Electronics Fair (CES) in Las Vegas and “Best in Show” at the 2018 JPMABabyShow in the US. The Evenflo car seat EveryStage DLX All in One was voted “Parent’s Pick” at the 2018 JPMABabyShow in the US.

Production and Supply Chain

We continue to invest in our Goodbaby Excellence System (GBES) introduced in 2016 to achieve world class supply chain and manufacturing processes. The output of GBES, utilizing lean methodologies and leveraging our global supply chain, has allowed us to largely offset increasing raw material input and labor costs. Further implementation of GBES and optimization of best of class supply chain, procurement and logistics will ensure our future competitiveness on a sustained basis.

OUTLOOK

While the financial performance during the Period has been impacted primarily by two short term challenges — we are confident the fundamentals of our overall commercial business platforms are performing in line with our strategic plan. The impact of the TRU/BRU liquidation will diminish during the remainder of 2018 as we reposition our revenues into other channels and we will complete the China market durables transition into our consumer centric retail model, restoring our financial performance to historical growth levels in revenue and profitability.

FINANCIAL REVIEW[1]

Revenue

The total revenue of the Group increased by 34.3% from approximately HK$3,295.6 million for the six months ended 30 June 2017 to approximately HK$4,425.7 million for the Period.

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

	For the six months ended 30 June				Growth
	Sales *(HK$ million)*	**2018 Total % of sales**	**Sales[2]** *(HK$ million)*	**2017 Total % of sales**	**Analysis 2018 vs 2017**
Group's own brand and retailer private label businesses	3,814.2	86.2	2,733.8	83.0	39.5%
APAC	1,865.9	42.2	926.5	28.1	101.4%
EMEA	995.2	22.5	787.0	23.9	26.5%
Americas	953.1	21.5	1,020.3	31.0	-6.6%
Blue Chip business	611.5	13.8	561.8	17.0	8.8%
Total	4,425.7	100.0	3,295.6	100.0	34.3%

1. All financial numbers in this Financial Review section are from the Group's consolidated accounts as reported.

2. Certain immaterial reclassifications were included.

The growth in the Group's own brand and retailer private label businesses were attributable to the consolidation of the Acquired Business, the strong performance of our strategic brands, Cybex and gb, which experienced solid growth because of successful new product launches, distribution channel development and brand-building efforts. However, the growth was partially offset by a decrease in the business of Exersaucer toy sub-brand within the Evenflo brand and other brands and retailer private label, primarily due to the ultimate bankruptcy and liquidation of TRU/BRU.

The Blue Chip business was stable and grew by 8.8% for the Period to HK$611.5 million, from HK$561.8 million for the corresponding period in 2017. We achieved these results by continuously working in close cooperation with our blue chip customers to provide outstanding manufacturing, research and development and overall service capabilities.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 22.2% from HK$2,100.5 million for the six months ended 30 June 2017 to HK$2,566.6 million for the Period. The gross profit for the Group increased from approximately HK$1,195.1 million for the six months ended 30 June 2017 to approximately HK$1,859.1 million for the Period, and the gross profit margin increased from approximately 36.3% for the six months ended 30 June 2017 to approximately 42.0% for the Period. The improvement in gross profit margin was mainly due to increased revenue contribution from our key strategic brands, the consolidation of the Acquired Business with higher gross margin and the continued improvement in cost efficiency.

Other Income and Gains

Other income and gains of the Group increased by HK$33.2 million from approximately HK$10.4 million for the six months ended 30 June 2017 to approximately HK$43.6 million for the Period. The increase was mainly attributable to the increase in government grants.

Selling and Distribution Costs

The Group's selling and distribution costs primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution costs increased from approximately HK$530.1 million for the six months ended 30 June 2017 to approximately HK$1,061.6 million for the Period. The increase was mainly attributable to the consolidation of the Acquired Business and after excluding the impact of the Acquired Business, the increase was mainly attributable to the increase of salaries due to increased sales forces, marketing expenses for brand-building efforts and transportation costs.

Administrative Expenses

The administrative expenses of the Group primarily consist of salaries, research and development costs, professional service expenses and other back office expenses. The administrative expenses increased from approximately HK$481.6 million for the six months ended 30 June 2017 to approximately HK$611.7 million for the Period. The increase was mainly due to the consolidation of the Acquired Business, and after excluding the impact of the Acquired Business, the increase was mainly due to the provision for the potential uncollectible receivables related to the liquidation of TRU/BRU and the increased investments in research and development activities to support new product and innovation.

Other Expenses

Other expenses of the Group decreased to approximately HK$12.4 million for the Period from approximately HK$14.3 million for the corresponding period in 2017. Other expenses mainly consist of foreign exchange related losses, loss on disposal of property, plant and equipment and other losses.

Operating Profit

As a result of the reasons mentioned above, the Group's operating profit increased by approximately 21.0%, or HK$37.7 million, from approximately HK$179.4 million for the six months ended 30 June 2017 to approximately HK$217.1 million for the Period.

The Group's non-GAAP operating profit increased by approximately 46.0%, or HK$89.5 million, from approximately HK$194.7 million for the six months ended 30 June 2017 to approximately HK$284.2 million for the Period. Please refer to the section headed "Non-GAAP Financial Measures" for information in relation to non-GAAP presentations.

Finance Income

For the Period, the Group's finance income was HK$1.7 million, which is stable as compared to the finance income of HK$1.8 million for the corresponding period in 2017. The Group's finance income mainly comprises interest income from bank deposits.

Finance Costs

For the Period, the Group's finance costs increased by 97.9%, or HK$28.4 million, from approximately HK$29.0 million for the corresponding period in 2017 to approximately HK$57.4 million. The increase was mainly attributable to the increase in LIBOR and the term loan for the Acquisition.

Profit Before Tax

As a result of the reasons mentioned above, the profit before tax of the Group increased by 6.3% from approximately HK$152.2 million for the six months ended 30 June 2017 to approximately HK$161.8 million for the Period.

The Group's non-GAAP profit before tax increased by approximately 36.7% from approximately HK$167.5 million for the six months ended 30 June 2017 to approximately HK$228.9 million for the Period. Please refer to the section headed "Non-GAAP Financial Measures" for information in relation to Non-GAAP presentations.

Income Tax Expense

The Group's income tax expense was approximately HK$27.6 million for the Period, increased by HK$1.3 million from approximately HK$26.3 million for the corresponding period in 2017.

Profit for the Period

Profit of the Group increased by 6.6% to approximately HK$134.2 million for the Period from approximately HK$125.9 million for the corresponding period in 2017.

The Group's non-GAAP profit increased by approximately 35.1% from approximately HK$139.8 million for the six months ended 30 June 2017 to approximately HK$188.8 million for the Period. Please refer to the section headed "Non-GAAP Financial Measures" for information in relation to Non-GAAP presentations.

Non-GAAP Financial Measures

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

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the six months ended 30 June 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	For the 6 months ended 30 June 2018				
		Adjustments			
	As reported *(HK$ million)*	**Equity-settled share option arrangements** *(HK$ million)*	**Amortisation of intangible assets and inventory appreciation (a)** *(HK$ million)*	**One-off bad debt provision and operating loss associated with TRU/BRU** *(HK$ million)*	**Non-GAAP** *(HK$ million)*
Operating profit	217.1	10.3	25.8	31.0	284.2
Profit before tax	161.8	10.3	25.8	31.0	228.9
Profit for the period	134.2	10.3	19.3	25.0	188.8
Operating margin	4.9%				6.4%
Net margin	3.0%				4.3%

	For the 6 months ended 30 June 2017			
		Adjustments		
	As reported *(HK$ million)*	**Equity-settled share option arrangements** *(HK$ million)*	**Amortisation of intangible assets (a)** *(HK$ million)*	**Non-GAAP** *(HK$ million)*
Operating profit	179.4	8.0	7.3	194.7
Profit before tax	152.2	8.0	7.3	167.5
Profit for the period	125.9	8.0	5.9	139.8
Operating margin	5.4%			5.9%
Net margin	3.8%			4.2%

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

Working Capital and Financial Resources

	As at 30 June 2018 *(HK$ million)*	As at 31 December 2017 *(HK$ million)*
Trade and notes receivables (including trade receivables due from a related party)	1,198.4	1,171.7
Trade and notes payables	1,190.2	1,312.6
Inventories	1,641.2	1,861.3

	For the six months ended 30 June 2018		For the year ended 31 December 2017	
	Original Business (Days)	**Acquired Business (Days)**	**Original Business (Days)**	**Acquired Business (Days)**
Trade and notes receivables turnover days (1)	59	35	54	35
Trade and notes payables turnover days (2)	90	81	89	85
Inventories turnover days (3)	120	75	113	74

Notes:

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

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

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

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

The increase of trade and note receivables was mainly attributable to the revenue growth, and trade and notes receivables turnover days of the Original Business increased slightly by 5 days to 59 days. The trade and notes receivables turnover days of the Acquired Business remained stable at 35 days.

The decrease of trade and note payables was mainly attributable to the control in procurement process to improve our efficiency. The trade and notes payables turnover days of the Original Business remained stable. The trade and notes payables turnover days of the Acquired Business decreased slightly by 4 days to 81 days.

The decrease of inventories was mainly attributable to the success of our promotional activities in June 2018 in China and the tighter control of inventory level. The inventory turnover days of the Original Business increased by 7 days to 120 days, primarily due to the increase in our own brands business. The inventory turnover days of the Acquired Business remained stable.

Liquidity and Financial Resources

As at 30 June 2018, the Group's monetary assets, including cash and cash equivalents, time deposit, pledged time deposits and available-for-sale investments, were approximately HK$847.9 million (31 December 2017: approximately HK$1,189.7 million).

As at 30 June 2018, the Group's interest-bearing bank loans and other borrowings were approximately HK$2,624.5 million (31 December 2017: approximately HK$2,736.8 million), including short-term bank loans and other borrowings of approximately HK$1,234.2 million (31 December 2017: approximately HK$1,341.7 million) and long-term bank loans and other borrowings with repayment terms ranging from three to seven years of approximately HK$1,390.3 million (31 December 2017: approximately HK$1,395.1 million).

As a result, as at 30 June 2018, the Group's net debt position was approximately HK$1,776.6 million (31 December 2017: approximately HK$1,547.1 million).

Contingent Liabilities

As at 30 June 2018, the Group had no material contingent liabilities (as at 30 June 2017: nil).

Exchange Rate Fluctuations

The Group is a multinational enterprise with operations in different countries and the money that it used to conduct its business and transaction are denominated in various currencies, and the Group uses the Hong Kong dollar ("HK$") as its reporting currency, which is pegged to U.S. dollar ("US$"). The Group's revenue is mainly denominated in US$, Renminbi ("RMB") and Euro. The Group's procurement and operating expenses are mainly denominated in RMB, US$ and Euro. The net exposures to foreign currency risks of the Group's operating results are mainly the

US$ and Euro revenue against RMB procurement and operating expenses. The Group would benefit from the appreciation of US$ and Euro against RMB but would suffer losses if US$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

Pledge of Assets

As at 30 June 2018, time deposits of approximately HK$16.8 million (31 December 2017: HK$15.4 million) were pledged for business operation.

Gearing Ratio

As at 30 June 2018, the Group's gearing ratio (calculated by net debt divided by the sum of adjusted capital and net debt; the amount of net debt is calculated by the sum of trade and notes payables, other payables, advances from customers and accruals, payables due to related parties and interest-bearing bank loans and other borrowings (current and non-current) minus cash and cash equivalents; the amount of the adjusted capital is calculated by equity attributable to owners of the parent minus hedging reserve) was approximately 42.6% (as at 31 December 2017: approximately 44.6%).

Employees and Remuneration Policy

As at 30 June 2018, the Group had a total of 14,064 full-time employees (31 December 2017: 15,516). For the Period, costs of employees, excluding directors' emoluments, amounted to a total of HK$882.9 million (for the six months ended 30 June 2017: HK$661.9 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company adopted a share option scheme to award employees who may have contribution to the Group. On 28 May 2018, the scheme limit of the share option scheme was refreshed such that the maximum number of shares of the Company which may be issued upon exercise of all options to be granted under the share option scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to the extent of up to 10 per cent of the Shares of the Company in issue as at the date of the general meeting of the Company on 28 May 2018.

During the Period, the Company granted 100,800,000 share options on 27 March 2018 and 11,500,000 share options on 28 May 2018. Of the 100,800,000 share options granted on 27 March 2018, the grant of 75,000,000 share options were subject to shareholders' approval having been obtained and such shareholders' approval was obtained on 28 May 2018.

As at 31 December 2017, the outstanding share options were 50,950,000. During the Period, 1,214,000 share options had lapsed and 1,772,000 share options had been exercised. As at 30 June 2018, 160,264,000 share options were outstanding.

Significant Acquisition, Disposal or Investment

During the Period, the Group did not have any material acquisition and disposals of subsidiaries and associated companies, and investment. .

OTHER INFORMATION

Purchase, Sales or Redemption of Shares

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Dividends

The Board does not recommend payment of any dividend for the Period (six months ended 30 June 2017: Nil).

Corporate Governance

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

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and has also put in place certain recommended best practices as set out in the CG Code. The Board is of the opinion that the Company has complied with all the code provisions set out in the CG Code throughout the six months ended 30 June 2018.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange on 24 November 2010, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the

Listing Rules as the code for the dealings in securities transactions by the Directors. Having made specific enquiries with all Directors of the Company, they have confirmed that they complied with the required standard of dealings set out in the Model Code throughout the Period.

Audit Committee

As at the date of this announcement, the audit committee of the Company (the "**Audit Committee**") consists of Mr. Iain Ferguson Bruce, Mr. Shi Xiaoguang and Ms. Chiang Yun. The chairman of the Audit Committee is Mr. Iain Ferguson Bruce. The unaudited interim condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee.

The unaudited interim results for the Period have been reviewed by the Company's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.gbinternational.com.hk). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 28 August 2018

As at the date of this announcement, the executive Directors are Mr. SONG Zhenghuan, Mr. Martin POS, Mr. YANG Ilcheul, Mr. XIA Xinyue, Mr. LIU Tongyou and Mr. Michael Nan QU; the non-executive Directors are Ms. FU Jingqiu and 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.