

2019 Interim Report

Goodbaby International Holdings Limited
www.gbinternational.com.hk
Stock Code: 1086

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Corporate Information

Corporate Information

Directors

Executive Directors

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

Non-Executive Directors

Ms. Fu Jingqiu
Mr. Ho Kwok Yin, Eric

Independent Non-Executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Auditors

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Certified Public Accountants
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1 Tim Mei Avenue
Central
Hong Kong

Legal Advisor

As to Hong Kong law
Sidley Austin
39th Floor
Two International Finance Centre
Central
Hong Kong

Principal Share Registrar

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Hong Kong Branch Share Registrar

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Hong Kong

Company Secretary

Ms. Ho Siu Pik

Authorized Representatives

Mr. Song Zhenghuan
Ms. Ho Siu Pik

Principal Banker

Bank of China, Kunshan Branch

Website

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Stock Code

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 cybex

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Management Discussion and Analysis

Management Discussion and Analysis

Overview

Goodbaby International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) recorded stable revenue while generating strong growth in the operating profit for the six months ended 30 June 2019 (the “Period”). Our revenue for the Period increased by 0.2% to approximately HK\$4,434.2 million from approximately HK\$4,425.7 million for the corresponding period in 2018. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 4.3% increase compared to the corresponding period in 2018. Our reported gross profit increased by 3.0% to approximately HK\$1,915.1 million for the Period from approximately HK\$1,859.1 million for the corresponding period in 2018. Our reported operating profit increased by 13.9% to approximately HK\$247.2 million for the Period from approximately HK\$217.1 million for the corresponding period in 2018 and on a non-GAAP basis, our operating profit increased by 1.9% to approximately HK\$289.7 million for the Period from approximately HK\$284.2 million for the corresponding period in 2018.

Our revenue performance is attributable to the strong growth from Cybex, the stabilization of revenues from both gb and Evenflo, offset by decreases in the Blue Chip business as planned and the Group’s tactical brands and retailer’s private label business resulting from the Group’s prioritization toward its more profitable core Strategic brands.

During the Period, the Group’s core Strategic brands recorded an overall 5.6% growth in revenue (10.3% on a constant currency basis) from the revenue of the corresponding period in 2018. Resulting from the Group’s focused brand strategy, our core strategic brands represent approximately 82% of the total consolidated revenues for the Period compared to approximately 78% for the corresponding period in 2018.

Summary of the Group’s core Strategic brands revenue:

	For the six months ended 30 June		Change (%)	Change on a constant currency basis (%)
	2019	2018		
(HK\$ million)				
Group Total Revenue	\$4,434.2	\$4,425.7	0.2%	4.3%

	For the six months ended 30 June				Change (%)	Change on a constant currency basis (%)
	2019		2018			
	Amount	% of Revenue	Amount	% of Revenue		
Core Strategic Brands Revenue	3,642.6	82.1%	3,449.9	77.9%	5.6%	10.3%
Cybex	1,238.7	27.9%	955.8	21.6%	29.6%	37.1%
gb	1,490.0	33.6%	1,576.3	35.6%	-5.5%	0.1%
Evenflo	913.9	20.6%	917.8	20.7%	-0.4%	-0.2%

Executive Summary

During the Period, the Group's core **Strategic brands** performed as follows:

- **Cybox** brand significantly increased global revenues by 29.6% (37.1% on a constant currency basis) in the Period to approximately HK\$1,238.7 million from approximately HK\$955.8 million for the corresponding period in 2018. This growth is directly attributable to the continued strong brand performance, new and innovative product introductions and enhanced logistics capabilities in EMEA. In particular, Cybox car seats and wheeled goods sales performance in EMEA was a key driver of growth in the Period. During the Period, Cybox continued to reinforce its leading position as the premium "technical-lifestyle" brand with recognition from independent organizations such as the German consumer testing lab ADAC, receiving 3 red dot design awards and continuously growing its celebrity and social media fan community.

In addition, Cybox recorded strong growth of 30.7% (38.3% on a constant currency basis) in the Period to approximately HK\$217.3 million from approximately HK\$166.2 million in the corresponding period in 2018 in markets outside Europe, primarily driven by continued brand building initiatives and further channel expansion.

- **gb** brand continues to realize stabilization in the business performance and recorded an overall revenue net decrease of 5.5% (increase of 0.1% on a constant currency basis) in the Period to approximately HK\$1,490.0 million from approximately HK\$1,576.3 million in the corresponding period in 2018.

In the key China market, gb brand recorded a slight revenue decrease of 3.2% (increase of 2.5% on a constant currency basis) in the Period to approximately HK\$1,363.4 million as compared to approximately HK\$1,408.8 million in the corresponding period in 2018. Our gb brand achieved the China market growth while maneuvering through increasingly challenging economic and retail environments in China. As anticipated, there are market indications of further birth rate decline in China, but the size of the overall addressable baby goods market still offers multiple growth opportunities. Home textiles and apparel continue to drive solid revenue growth of approximately 8.7% (15.3% on a constant currency basis). While durables revenues decreased (primarily car seats) by approximately 12.5% (7.5% on a constant currency basis), new durables wheeled goods product launches in late H1 2019, combined with the continued revision of the wholesale distribution strategy, produced positive growth in June 2019 as compared to June 2018, establishing a foundation for solid durables momentum for the full year of 2019. Overall, the stabilization initiatives by China market are gaining momentum and further positive performance is expected in H2 2019 as gb drives toward a deeper direct engagement with consumers, as evidenced by the strong growth of our own online and offline retail channels.

gb brand revenues outside the China market approximated HK\$126.6 million in the Period as compared to approximately HK\$167.1 million in the corresponding period of 2018. This decrease is a direct result of phasing out of older product portfolio, and new product launches in late H1 will return gb back to growth in H2.

Management Discussion and Analysis

- **Evenflo** brand rebounded from a weak revenue performance in early 2019 to achieve a slight decrease of 0.4% (decrease of 0.2% on a constant currency basis) to approximately HK\$913.9 million from approximately HK\$917.8 million in the corresponding period in 2018. A challenging retail environment in late 2018/early 2019, caused by an overall lack of consumer confidence resulting from uncertainties on potential tariffs, government shutdowns and subdued performance of major retailer promotions, began to stabilize during the Period with a return to positive retailer POS in mid/late H1. Additionally, due to the liquidation of Toys R Us (“TRU”) and its subsidiary Babies R Us (“BRU”) in early 2018, there were no revenues to TRU/BRU in the Period compared to approximately HK\$15.6 million in the corresponding period in 2018. Evenflo offset this impact in the Period through increased revenues in other North American channels. This growth from late H1 is expected to continue into H2 2019 as Evenflo continues to launch new products and fulfills recent awards of business from major national retailers.

Evenflo derives the great majority of its revenue from the North America market, from which revenue remained level (increase of 0.1% on a constant currency basis) as sales experienced a rebound in the latter part of the Period due to retail POS stabilization and mid year new product launches.

During the Period, our Blue Chip business revenue decreased by 15.8% to approximately HK\$514.7 million in the Period as compared to approximately HK\$611.5 million in the corresponding period in 2018. The decrease is directly attributed to higher purchases in the same period of 2018 due to key Blue Chip customer inventory build-up strategies given the uncertain tariff situation at that time. The Group’s relationship with its Blue Chip customers remains strong and we anticipate positive revenue development in H2 2019.

During the Period, the Group’s revenue from other business units including the Group’s tactical brands and retailer’s private label business approximated HK\$276.9 million as compared to approximately HK\$364.3 million in the corresponding period of 2018. This approximate 24% decrease (decrease of 20.6% on a constant currency basis) is directly impacted by the Group’s strategy to concentrate on profitable business and continue full focus on the development of its core Strategic brands.

Innovation and Technology

The Group continues its investment in the innovative research and development (“R&D”) centers concentrated in China, Europe and North America. These R&D hubs allow us to design and innovate a wide range and variety of consumer centric products in a collaborative manner sharing best practices. To further strengthen our commitment to these principles, during the Period, the Group invested in two new car seat crash sled test facilities, one based in Germany and China, respectively. These investments will ensure Goodbaby remains the leader in global car seat child safety initiatives, will facilitate a faster speed to market in product development/launches and will facilitate future growth.

Consistent with prior periods, Goodbaby brands continue to be recognized for design and safety. During the Period, we continued to reinforce our leading industry position by receiving independent recognition and awards from various consumer testing organizations (e.g. ADAC in Germany), four red dot design awards between Cybex (three) and gb (one), respectively, two North American industry awards for Evenflo, and continuously expanded our celebrity and social media fan community.

Production and Supply Chain

While continued discipline in execution of the Goodbaby Excellence System (GBES) has resulted in world class standards in supply chain and operational excellence, we are investing in smart and automated production technologies to mitigate and reduce increasing labor and overhead costs to ensure we remain competitive. These operations will ensure that the Group continues to provide world class quality, competitive costs and accelerate our speed to market.

Outlook

We have seen positive business developments in all three of our core Strategic brands and organizational structure that provide us with renewed confidence of improved future financial performance. We are expecting further growth in revenue and profitability as we continue to maneuver through the continuously challenging global political, economic and retail environments. We will accomplish this by our focused strategy of investing in our core Strategic brands of Cybex, gb and Evenflo and by continued support of our Blue Chip business. Global demand for Cybex branded products will continue its strong growth across all key geographic regions supported by its current product portfolio and new product launches, strengthened supply chain capabilities and expanding distribution platforms. Stabilization of the gb brand in the key China market is being achieved and is poised for growth in H2 2019 with the continued success of the non-durables portfolio combined with expected rebound of the durables products. Evenflo has rebounded from difficult market conditions in early 2019 and is staged for growth in the back half of 2019 and into 2020 resulting from new product launches and new awards of business from major retailers resulting from its diligence to enhance the overall brand image. On a global basis, we remain committed to invest in B2C platforms through our own national distribution platforms in existing and new markets to ensure we maintain a direct relationship with our fans and consumers and provide them with a world class online experience. World class manufacturing, supply chain excellence and cost optimization will once again remain the core of our vision of leading the global juvenile eco-system and achieving sustained profitable growth.

Financial Review

Revenue

The total revenue of the Group increased by 0.2% to approximately HK\$4,434.2 million for the Period from approximately HK\$4,425.7 million in the corresponding period of 2018. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 4.3% increase compared to the corresponding period in 2018.

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

(HK\$ million)	For the six months ended 30 June				Change (%)	Change on a constant currency basis (%)
	2019		2018			
	Revenue	% of revenue	Revenue	% of revenue		
Group's own brand and retailer private label businesses	3,919.5	88.4	3,814.2	86.2	2.8%	7.3%
APAC	1,762.4	39.8	1,865.9	42.2	-5.5%	-0.1%
EMEA	1,197.7	27.0	995.2	22.5	20.3%	27.2%
Americas	959.4	21.6	953.1	21.5	0.7%	1.1%
Blue Chip business	514.7	11.6	611.5	13.8	-15.8%	-14.4%
Total	4,434.2	100.0	4,425.7	100.0	0.2%	4.3%

The 2.8% growth (7.3% growth on a constant currency basis) of the Group's own brand and retailer private label businesses were attributable to the strong performance of our strategic brand Cybex and the stabilization of revenues from both brands gb and Evenflo, which was partially offset by the decrease in the Group's tactical brands and retailer's private label business (for more information about performances by brand, please refer to Executive Summary of this Management Discussion and Analysis section).

Management Discussion and Analysis

- In region APAC, we recorded revenue from China market of approximately HK\$1,618.3 million in the Period against HK\$1,709.3 million in the corresponding period in 2018, decreased by 5.3% (an increase of 0.3% on a constant currency basis). The slight increase in revenue on constant currency basis was mainly attributable to revenue growth from our strategic brand gb offset by revenue decrease from brand Happy Dino. The revenue from markets outside China decreased to HK\$144.1 million in the Period from approximately HK\$156.6 million in the corresponding period of 2018, which was mainly due to the decrease in revenue from our toy segment brand Rollplay.
- In region EMEA, we recorded revenue of approximately HK\$1,197.7 million in the Period, increased by 20.3% (27.2% on a constant currency basis) from approximately HK\$995.2 million in the corresponding period in 2018. The significant growth in region EMEA is mainly attributable to the strong performance of our strategic brand Cybex offset by weaker performance of brand gb.
- In region Americas, we recorded revenue of approximately HK\$959.4 million in the Period, increased by 0.7% (1.1% on a constant currency basis) from approximately HK\$953.1 million for the corresponding period in 2018. The increase was mainly attributable to the stabilization of revenue from our strategic brand Evenflo and strong growth of revenue from brand Cybex.

During the Period, our Blue Chip business revenue decreased by 15.8% to approximately HK\$514.7 million in the Period as compared to HK\$611.5 million in the corresponding period in 2018. The decrease is directly attributed to higher purchases in the same period of 2018 due to key Blue Chip customer inventory build-up strategies given the uncertain tariff situation at that time. The Group's relationship with its Blue Chip customers remains strong and we anticipate further positive revenue development in H2 2019.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales decreased by 1.9% to approximately HK\$2,519.1 million for the Period as compared to approximately HK\$2,566.6 million for the corresponding period in 2018. The gross profit for the Group increased by 3.0% to approximately HK\$1,915.1 million for the Period from approximately HK\$1,859.1 million for the corresponding period of 2018, and the gross profit margin increased to approximately 43.2% for the Period from approximately 42.0% for the corresponding period of 2018. The improvement in gross profit margin was mainly due to increased revenue contribution from our core strategic brands with higher gross margin and the continued improvement in cost efficiency.

Other Income and Gains

Other income and gains of the Group approximated HK\$36.4 million for the Period, which decreased by approximately HK\$7.2 million, or 16.5%, from approximately HK\$43.6 million for the corresponding period of 2018. The decrease was mainly attributable to the decrease in government grants.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of personnel cost, marketing expenses, online and offline store expense, warehousing and transportation costs. The selling and distribution costs approximated HK\$1,141.6 million for the Period, increased from approximately HK\$1,061.6 million for the corresponding period of 2018 as we recorded higher revenue contribution from our core strategic brands which have higher selling and distribution costs. The increase was mainly attributable to:

- a) the increase in marketing expenses to approximately HK\$240.9 million for the Period from approximately HK\$215.0 million for the corresponding period of 2018, to fuel revenue growth of core strategic brands;
- b) the increase in warehousing and transportation costs to approximately HK\$232.4 million for the Period from approximately HK\$194.3 million for the corresponding period of 2018, for our own brand business especially for the strong performance in region EMEA;
- c) stable costs in personnel of approximately HK\$308.7 million for the Period, compared to approximately HK\$309.1 million in the corresponding period of 2018; and
- d) stable online and offline store expense of approximately HK\$145.3 million for the Period, compared to approximately HK\$148.2 million for the corresponding period of 2018.

Administrative Expenses

The administrative expenses of the Group primarily consist of personnel cost, R&D costs, professional service expenses, other back office expenses and provision for the impairment of receivables. The administrative expenses decreased to approximately HK\$550.5 million for the Period from approximately HK\$611.7 million for the corresponding period of 2018. The decrease was mainly due to:

- a) the decrease in personnel cost to approximately HK\$212.3 million for the Period from approximately HK\$231.0 million for the corresponding period of 2018, due to a more integrated and optimized Group organization;
- b) the decrease in the R&D cost to approximately HK\$163.6 million for the Period from approximately HK\$172.0 million for the corresponding period of 2018, due to more efficient R&D expenditures;
- c) the decrease of approximately HK\$28.4 million in provision for the impairment of receivables in the Period comparing with that in the corresponding period of 2018. In the first half of 2018, we made significant provision for potential uncollectible receivables from TRU; and
- d) stable in other administrative expenses.

Other Expenses

Other expenses of the Group decreased to approximately HK\$12.2 million for the Period from approximately HK\$12.4 million for the corresponding period in 2018. Other expenses mainly consist of foreign exchange related losses, loss on disposal of property, plant and equipment and other losses.

Management Discussion and Analysis

Operating Profit

As a result of the reasons mentioned above, the Group's operating profit increased by approximately HK\$30.1 million, or 13.9%, to approximately HK\$247.2 million for the Period from approximately HK\$217.1 million for the corresponding period of 2018.

The Group's non-GAAP operating profit increased by approximately HK\$5.5 million, or 1.9%, to approximately HK\$289.7 million for the Period from approximately HK\$284.2 million for the corresponding period of 2018. 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 increased by approximately HK\$2.1 million to approximately HK\$3.8 million for the Period from approximately HK\$1.7 million for the corresponding period of 2018. The Group's finance income mainly comprises interest income from bank deposits.

Finance Costs

For the Period, the Group's finance costs increased by approximately HK\$16.3 million, or 28.4%, to approximately HK\$73.7 million for the Period from approximately HK\$57.4 million for the corresponding period in 2018. The increase was mainly attributable to the increase in LIBOR and the additional interest expenses arising from the lease liabilities recognized as a result of the adoption of IFRS 16 in the Period.

Profit Before Tax

As a result of the reasons mentioned above, the profit before tax of the Group increased by 9.5% to approximately HK\$177.1 million for the Period from approximately HK\$161.8 million for the corresponding period of 2018.

Income Tax Expense

The Group's income tax expense was approximately HK\$40.8 million for the Period, increased by approximately HK\$13.2 million from approximately HK\$27.6 million for the corresponding period in 2018. The increase in income tax expense was mainly due to strong financial performance in EMEA, where the income tax rate is higher than other regions in the Group.

Net Profit for the Period

Net profit of the Group increased by 1.6% to approximately HK\$136.3 million for the Period from approximately HK\$134.2 million for the corresponding period in 2018.

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, are presented. The Company's management believes that the non-GAAP financial measures provide investors with a 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 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	For the six months ended 30 June 2019			
	As reported	Adjustments		Non-GAAP
		Equity-settled share option arrangements	Amortisation of intangible assets and inventory appreciation (a)	
(HK\$ million)				
Operating profit	247.2	20.8	21.7	289.7
Profit before tax	177.1	20.8	21.7	219.6
Profit for the period	136.3	20.8	16.2	173.3
Operating margin	5.6%			6.5%
Net margin	3.1%			3.9%

	For the six months ended 30 June 2018				
	As reported	Adjustments		Non-GAAP	
		Equity-settled share option arrangements	Amortisation of intangible assets and inventory appreciation (a)		One-off bad debt provision and operating loss associated with TRU/BRU
(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%

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

Management Discussion and Analysis

Working Capital and Financial Resources

	As at 30 June 2019	As at 31 December 2018
	(HK\$ million)	
Trade and notes receivables (including trade receivables due from a related party)	1,244.9	1,108.6
Trade and notes payables	1,368.6	1,439.4
Inventories	1,809.7	1,944.0
	For the six months ended 30 June 2019	For the year ended 31 December 2018
	(HK\$ million)	
Trade and notes receivables turnover days ⁽¹⁾	48	48
Trade and notes payables turnover days ⁽²⁾	100	101
Inventories turnover days ⁽³⁾	134	140

- (1) Trade and notes receivables turnover days = Number of days in the reporting period x (Average balance of trade and notes receivables at the beginning and at the end of the period)/revenue in the reporting period.
- (2) Trade and notes payables turnover days = Number of days in the reporting period x (Average balance of the trade and bills payables at the beginning and at the end of the period)/cost of sales in the reporting period.
- (3) Inventories turnover days = Number of days in the reporting period x (Average balance of inventories at the beginning and at the end of the period)/cost of sales in the reporting period.

The increase in trade and note receivables was mainly attributable to the revenue growth in our own brand business, and trade and notes receivables turnover days remains stable at 48 days.

The decrease of trade and note payables was mainly attributable to less procurement in the period near 30 June 2019 compared to the period near 2018 year end. During the period approaching 2018 year end, the Group increased purchases preparing for the production and shipments before Chinese New Year. The trade and notes payables turnover days remained stable.

The decrease of inventories was mainly attributable to the tighter control of inventory level and the shipments of inventories before 2018 year end prepared in advance for the significant order demands in first quarter 2019 in region EMEA. The inventory turnover days decreased by 6 days to 134 days.

Liquidity and Financial Resources

As at 30 June 2019, the Group's monetary assets, including cash and cash equivalents, time deposit, pledged bank deposits were approximately HK\$1,046.3 million (31 December 2018: approximately HK\$930.4 million).

As at 30 June 2019, the Group's interest-bearing bank loans and other borrowings were approximately HK\$2,774.5 million (31 December 2018: approximately HK\$2,777.2 million), including short-term bank loans and other borrowings of approximately HK\$714.1 million (31 December 2018: approximately HK\$887.5 million) and long-term bank loans and other borrowings with repayment terms of three years of approximately HK\$2,060.4 million (31 December 2018: approximately HK\$1,889.7 million).

As a result, as at 30 June 2019, the Group's net debt position was approximately HK\$1,728.2 million (31 December 2018: approximately HK\$1,846.8 million).

Contingent Liabilities

As at 30 June 2019, the Group had no material contingent liabilities (as at 31 December 2018: nil).

Exchange Rate Fluctuations

The Group is a multinational enterprise with operations in different countries and the money that it uses 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 incur losses if US\$ or Euro depreciates against RMB. The Group uses forward contracts to substantially eliminate the foreign currency exposures.

Pledge of Assets

As at 30 June 2019, bank deposits of approximately HK\$24.9 million (31 December 2018: Nil) were pledged for business operation.

Gearing Ratio

As at 30 June 2019, 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, lease liabilities 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 44.8% (as at 31 December 2018: approximately 45.2% as disclosed in our 2018 annual announcement, or 46.7% after taking into consideration the impact of IFRS 16).

Employees and Remuneration Policy

As at 30 June 2019, the Group had a total of 12,506 full-time employees (31 December 2018: 12,397). For the Period, costs of employees, excluding directors’ emoluments, amounted to a total of approximately HK\$865.3 million (for the corresponding period of 2018: approximately HK\$882.9 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 an impactful 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.

As at 31 December 2018, the outstanding share options were 133,030,667. During the Period, the Company granted 85,300,000 share options on 23 May 2019, 3,600,667 share options had lapsed and 0 share options had been exercised. As at 30 June 2019, 214,730,000 share options were outstanding.

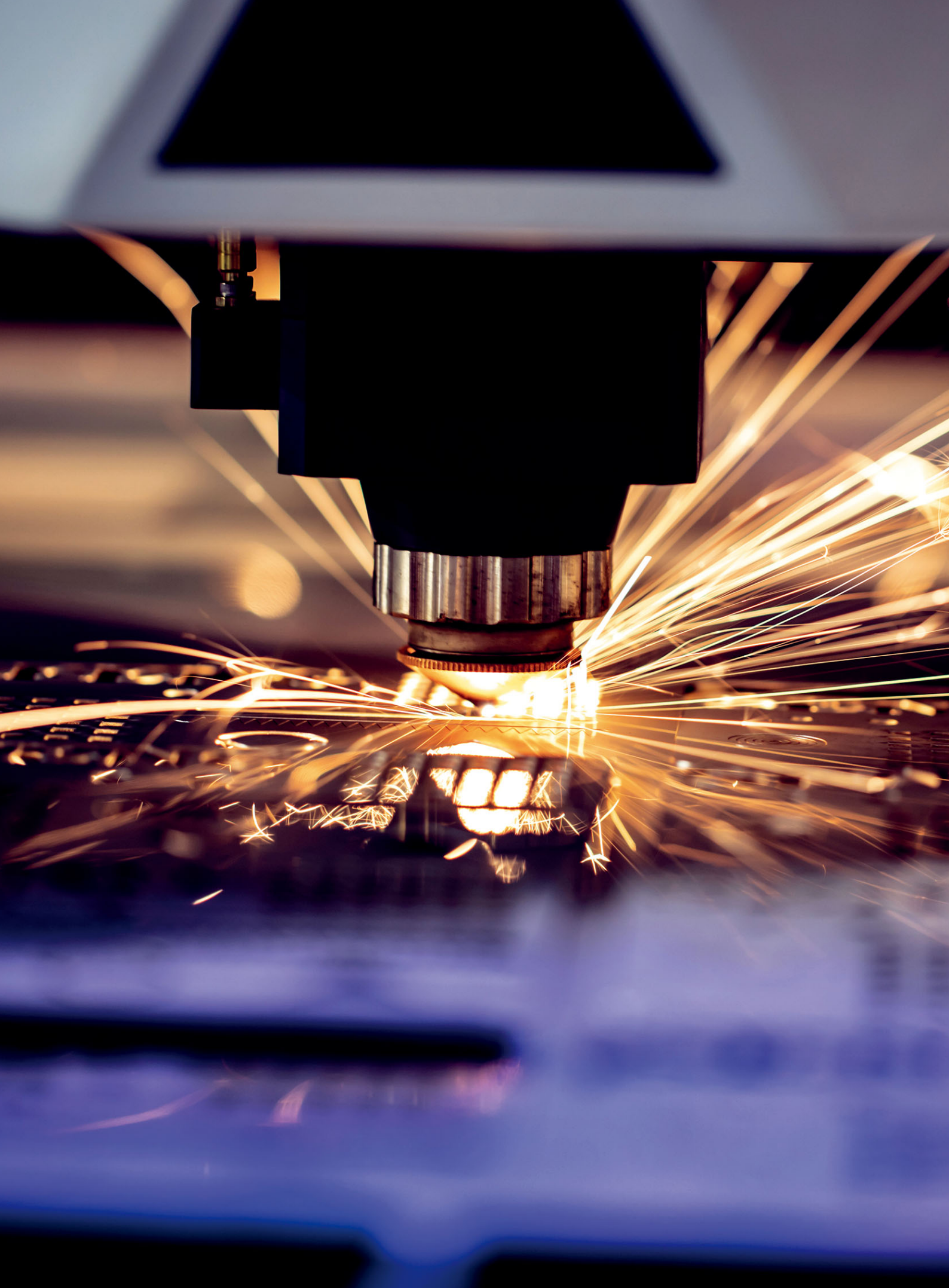
Management Discussion and Analysis

Name of grantee	No. of share options outstanding at the beginning of the Period	No. of share options granted during the Period	No. of share options canceled during the Period	No. of share options lapsed during the Period	No. of share options exercised during the Period	No. of Share options outstanding at the end of the Period	Date of grant	Period during which share options are exercisable	Exercise price per share (HK\$)	Closing Price of the shares at the date of grant
Directors of the Company, employees of the Group and Ms. Fu Jingqiu (Chairwoman of the Group's largest distributor in the PRC and a substantial shareholder of the Company)	25,414,000	0	0	334,000	0	25,080,000	29 September 2014	(i) 7,593,335 share options: 29 September 2017 to 28 September 2024 (ii) 9,093,335 share options: 29 September 2018 to 28 September 2024 (iii) 8,393,330 share options: 29 September 2019 to 28 September 2024	3.58	3.40
Eligible participants	15,116,667	0	0	1,266,667	0	13,850,000	7 October 2015	(i) 4,616,668 share options: 7 October 2018 to 6 October 2025 (ii) 4,616,668 share options: 7 October 2019 to 6 October 2025 (iii) 4,616,664 share options: 7 October 2020 to 6 October 2025	3.75	3.75
Eligible participants	3,000,000	0	0	0	0	3,000,000	28 August 2017	(i) 1,000,000 share options: 28 August 2020 to 27 August 2027 (ii) 1,000,000 share options: 28 August 2021 to 27 August 2027 (iii) 1,000,000 share options: 28 August 2022 to 27 August 2027	3.88	3.88
Directors of the Company, employees of the Group	78,800,000	0	0	1,500,000	0	77,300,000	27 March 2018	(i) 15,460,000 share options: 27 September 2020 to 27 March 2028 (ii) 23,190,000 share options: 27 September 2021 to 27 March 2028 (iii) 38,650,000 share options: 27 September 2022 to 27 March 2028	4.54	4.54
Eligible participants	10,700,000	0	0	500,000	0	10,200,000	28 May 2018	(i) 2,040,000 share options: 28 May 2021 to 27 May 2028 (ii) 3,060,000 share options: 28 May 2022 to 27 May 2028 (iii) 5,100,000 share options: 28 May 2023 to 27 May 2028	5.122	4.78

	No. of share options outstanding at the beginning of the Period	No. of share options granted during the Period	No. of share options canceled during the Period	No. of share options lapsed during the Period	No. of share options exercised during the Period	No. of Share options outstanding at the end of the Period	Date of grant	Period during which share options are exercisable	Exercise price per share (HK\$)	Closing Price of the shares at the date of grant
Name of grantee									(HK\$)	
Directors of the Company, employees of the Group	0	85,300,000	0	0	0	85,300,000	23 May 2019	(i) 17,060,000 share options: 23 May 2022 to 22 May 2029	3.75	1.87
								(ii) 25,590,000 share options: 23 May 2023 to 22 May 2029		
								(iii) 42,650,000 share options: 23 May 2024 to 22 May 2029		

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 during the Period under review.



Other Information

Other Information

Purchase, Sale or Redemption of Shares

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

Dividends

The board of directors of the company (the "Board") does not recommend payment of any dividend for the Period (six months ended 30 June 2018: 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 Period.

Specific Performance Obligations of Controlling Shareholders Under Rule 13.18 of the Listing Rules

July 2018 Facility Agreement

To refinance certain bank loans, on 16 July 2018, Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company (as borrower), the Company (as guarantor), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "July 2018 Facility Agreement") in respect of a US\$152,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the July 2018 Facility Agreement may be increased by not more than US\$98,000,000 by way of accession(s) of additional lender(s).

Under the Facility Agreement, if Mr. Song Zhenghuan ("Mr. Song") together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

- (1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and
- (2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

As at the date of this report, US\$164,000,000 remains outstanding in respect of this July 2018 Facility Agreement.

For further details, please also refer to the announcement of the Company dated 16 July 2018.

December 2018 Facility Agreement

To refinance certain bank loans, on 28 December 2018, Serena Merger Co., Inc., a wholly-owned subsidiary of the Company (as borrower), Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company and the Company (as guarantors), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "December 2018 Facility Agreement") in respect of a US\$100,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the December 2018 Facility Agreement may be increased by not more than US\$20,000,000 by way of accession(s) of additional lender(s).

Under the December 2018 Facility Agreement, if Mr. Song together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

- (1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and

(2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

As at the date of this report, US\$100,000,000 remains outstanding in respect of this December 2018 Facility Agreement.

For further details, please also refer to the announcement of the Company dated 31 December 2018.

Save as disclosed above, as at 30 June 2019, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

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 report, 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.

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

As at 30 June 2019, the interest or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

Directors' Interest in the Shares And/Or Underlying Shares

Name of Director	Nature of Interest	Number of Shares and/ or Underlying Shares	Approximate percentage of Shareholding
Mr. Song Zhenghuan ("Mr. Song") (Notes 2&5)	Beneficiary of a trust/ Beneficial owner/Interest of controlled corporation/ Interest of spouse	770,122,427 (L)	46.17%
Mr. Martin Pos	Beneficial owner	84,633,498 (L)	5.07%
Mr. Michael Nan Qu	Beneficial owner/Interest of spouse	11,699,000 (L)	0.7%
Mr. Liu Tongyou ("Mr. Liu") (Note 3)	Beneficial owner/Interest of controlled corporation	44,057,573 (L)	2.64%
Ms. Fu Jingqiu ("Ms. Fu") (Notes 2&5)	Beneficiary of a trust/ Beneficial owner/ Interest of spouse	770,122,427 (L)	46.17%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,400,000 (L)	0.08%
Mr. Iain Ferguson Bruce	Beneficial owner	1,200,000 (L)	0.07%
Mr. Shi Xiaoguang	Beneficial owner	1,200,000 (L)	0.07%
Ms. Chiang Yun	Beneficial owner	1,200,000 (L)	0.07%
Mr. Jin Peng	Beneficial owner	400,000 (L)	0.02%
Mr. Xia Xinyue	Beneficial owner	20,000,000 (L)	1.20%

Other Information

Notes:

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) Mr. Song and Ms. Fu are beneficiaries of Grappa Trust of which Credit Suisse Trust Limited (Singapore) is the trustee. Ms. Fu is a beneficiary of Golden Phoenix Trust of which Credit Suisse Trust Limited (Guernsey) is the trustee. See notes (2) to (4) of the section headed “Substantial Shareholders’ Interests and Short Positions” for further details of the interest.
- (3) Mr. Liu is interested in 29,057,573 shares of the Company held through Silvermount Limited, a company wholly owned by him. He also holds 15,000,000 share options of the Company.
- (4) Each of the Directors is deemed to have an interest in the underlying shares of the Company within the meaning of Part XV of the SFO in respect of the share options of the Company granted to him/her, details are as follows:

Name of Director	Number of Share Options granted
Mr. Song Zhenghuan	1,390,000
Mr. Martin Pos	37,400,000
Mr. Michael Nan Qu	11,600,000
Mr. Liu Tongyou	15,000,000
Ms. Fu Jingqiu	2,690,000
Mr. Ho Kwok Yin, Eric	1,400,000
Mr. Iain Ferguson Bruce	1,200,000
Mr. Shi Xiaoguang	1,200,000
Ms. Chiang Yun	1,200,000
Mr. Xia Xinyue	20,000,000
Mr. Jin Peng	400,000

- (5) Since Ms. Fu is Mr. Song’s spouse, each of Mr. Song and Ms. Fu is deemed to have an interest in the 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 each of them.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company or their respective close associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders’ Interests and Short Positions

As at 30 June 2019, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares and/or Underlying Shares	Approximate Percentage of Shareholding
Cayey Enterprises Limited (Note 2)	Interest of Controlled Corporation/Beneficial Owner	548,994,581 (L)	32.91%
Credit Suisse Trust Limited (Singapore) (Note 2)	Trustee	548,994,581 (L)	32.91%
Grappa Holdings Limited (Note 2)	Interest of Controlled Corporation	548,994,581 (L)	32.91%
Pacific United Developments Limited (“PUD”) (Note 2)	Beneficial Owner	409,518,229 (L)	24.55%
Sure Growth Investments Limited (Note 3)	Beneficial Owner	129,293,975 (L)	7.75%
FIL Limited	Investment Manager	118,499,000 (L)	7.10%
Pandanus Associates Inc.	Investment Manager	118,499,000 (L)	7.10%
Pandanus Partners L.P.	Investment Manager	118,499,000 (L)	7.10%
Credit Suisse Trust Limited (Guernsey) (Note 4)	Trustee	87,753,871 (L)	5.26%
Golden Phoenix Limited	Interest of Controlled Corporation	87,753,871 (L)	5.26%
Rosy Phoenix Limited (Note 4)	Beneficial Owner	87,753,871 (L)	5.26%
FIDELITY FUNDS	Beneficial Owner	83,939,000 (L)	5.03%
Invesco Hong Kong Limited	Investment Manager	83,816,000 (L)	5.02%
Templeton Investment Counsel, LLC	Investment Manager	83,333,133 (L)	5.00%

Notes:

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) PUD is owned as to approximately 52.37% by Cayey Enterprises Limited, which in turn is, as at 30 June 2019, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited (Singapore), which is the trustee holding 548,994,581 interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.
- (3) Sure Growth Investments Limited is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 11.11% by Mr. Liu Tongyou, executive director of the Company and as to 5.56% by Mr. Michael Nan Qu, executive director of the Company.
- (4) Rosy Phoenix Limited is indirectly held by Credit Suisse Trust Limited (Guernsey) as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the Golden Phoenix Trust and Credit Suisse Trust Limited (Guernsey) is the trustee holding 87,753,871 interest on trust for the beneficiaries that include Ms. Fu.

Save as disclosed above, as at 30 June 2019, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

IMPORTANT EVENTS AFTER THE PERIOD

No important event affecting the Group has occurred since 30 June 2019 up to the date of this report.

Disclosure of Information of Directors Under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules

Changes in Directors’ biographical details since the date of the 2018 annual report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules, are set out below.

Mr. Song Zhenghuan

Mr. Song has ceased as director of Evenflo Hong Kong Limited and Kunshan Goodbaby Ruizhi Big Data Service Limited Company# with effect from 8 March 2019 and 15 March 2019 respectively.

for reference only

Mr Michael Nan Qu

Mr Qu has ceased as director of Evenflo Hong Kong Limited with effect from 8 March 2019.

Save as mentioned above, there is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules since the publication of the 2018 annual report of the Company.

For and on behalf of the Board of Directors

Song Zhenghuan

Chairman

26 August 2019



Report on Review of Interim Condensed Consolidated Financial Statements

Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors of Goodbaby International Holdings Limited

(Established in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 29 to 68, which comprises the condensed consolidated statement of financial position of Goodbaby International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (the “IASB”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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.

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

26 August 2019

Interim Condensed Consolidated Statement of Profit or Loss

For the Six Months Ended 30 June 2019

	Notes	Six months ended 30 June	
		2019	2018
		(Unaudited) (HK\$'000)	
Revenue	4	4,434,224	4,425,702
Cost of sales		(2,519,123)	(2,566,559)
Gross profit		1,915,101	1,859,143
Other income and gains	4	36,386	43,649
Selling and distribution expenses		(1,141,598)	(1,061,587)
Administrative expenses		(550,524)	(611,748)
Other expenses		(12,166)	(12,407)
Operating profit		247,199	217,050
Finance income	5	3,829	1,725
Finance costs	6	(73,706)	(57,357)
Share of profits or losses of joint ventures		(207)	402
Profit before tax	7	177,115	161,820
Income tax expense	8	(40,851)	(27,631)
Profit for the period		136,264	134,189
Attributable to:			
Owners of the parent		135,760	132,940
Non-controlling interests		504	1,249
		136,264	134,189
Earnings per share attributable to ordinary equity holders of the parent:	10		
Basic			
For profit for the period (HK\$)		0.08	0.08
Diluted			
For profit for the period (HK\$)		0.08	0.08

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	
	(HK\$'000)	
Profit for the period	136,264	134,189
Other comprehensive income		
Other comprehensive income that may 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	7,213	25,794
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss	1,398	(17,574)
Income tax effect	(1,130)	(2,687)
	7,481	5,533
Exchange differences:		
Exchange differences on translation of foreign operations	(23,390)	(81,623)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(15,909)	(76,090)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Actuarial losses of defined benefit plans	–	(1,135)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	–	(1,135)
Other comprehensive loss for the period, net of tax	(15,909)	(77,225)
Total comprehensive income for the period	120,355	56,964
Attributable to:		
Owners of the parent	119,950	54,275
Non-controlling interests	405	2,689
	120,355	56,964

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019	31 December 2018
		(Unaudited)	(Audited)
(HK\$'000)			
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,062,373	1,077,786
Right-of-use assets	12	204,925	–
Prepaid land lease payments		49,807	50,925
Goodwill	13	2,674,964	2,682,108
Other intangible assets	14	2,229,525	2,238,039
Investment in joint ventures		4,371	5,078
Deferred tax assets		163,489	151,589
Other long-term assets		9,252	7,999
Total non-current assets		6,398,706	6,213,524
CURRENT ASSETS			
Inventories	15	1,809,712	1,943,977
Trade and notes receivables	16	1,230,720	1,097,040
Prepayments and other receivables		429,076	418,987
Due from a related party	26	14,165	11,571
Derivative financial instruments	20	8,180	2,987
Cash and cash equivalents		1,021,462	926,952
Time deposits		–	3,447
Pledged bank deposits		24,913	–
Total current assets		4,538,228	4,404,961
CURRENT LIABILITIES			
Trade and notes payables	17	1,368,602	1,439,374
Other payables, advances from customers and accruals		772,672	760,566
Interest-bearing bank loans and other borrowing	18	714,117	887,462
Income tax payable		48,447	16,497
Lease liabilities	19	44,846	–
Provisions		37,060	37,446
Derivative financial instruments	20	6,629	1,058
Defined benefit plan liabilities		703	705
Dividends payable		8	8
Total current liabilities		2,993,084	3,143,116
NET CURRENT ASSETS		1,545,144	1,261,845
TOTAL ASSETS LESS CURRENT LIABILITIES		7,943,850	7,475,369

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019	31 December 2018
		(Unaudited)	(Audited)
(HK\$'000)			
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowing	18	2,060,435	1,889,728
Provisions		51,410	44,984
Lease liabilities	19	158,518	–
Defined benefit plan liabilities		3,077	7,281
Other liabilities		14,184	13,953
Deferred tax liabilities		552,023	556,317
Total non-current liabilities		2,839,647	2,512,263
Net assets		5,104,203	4,963,106
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	16,680	16,680
Reserves		5,038,732	4,898,040
		5,055,412	4,914,720
Non-controlling interests		48,791	48,386
Total equity		5,104,203	4,963,106

SONG Zhenghuan
Director

LIU Tongyou
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2019

	Attributable to owners of the parent										Non-controlling interests	Total equity	
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings			Total
	(HK\$'000)												
	(Unaudited)												
At 1 January 2019	16,680	3,320,401	68,996	200,207	(126,124)	5,490	153,975	(21,651)	(1,606)	1,298,352	4,914,720	48,386	4,963,106
Profit for the period	-	-	-	-	-	-	-	-	-	135,760	135,760	504	136,264
Other comprehensive income for the period:													
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	7,481	-	7,481	-	7,481
Exchange differences on translation	-	-	-	-	(23,291)	-	-	-	-	-	(23,291)	(99)	(23,390)
Total comprehensive income for the period	-	-	-	-	(23,291)	-	-	-	7,481	135,760	119,950	405	120,355
Equity-settled share option arrangements	-	-	20,742	-	-	-	-	-	-	-	20,742	-	20,742
At 30 June 2019 (unaudited)	16,680	3,320,401	89,738	200,207	(149,415)	5,490	153,975	(21,651)	5,875	1,434,112	5,055,412	48,791	5,104,203

	Attributable to owners of the parent										Non-controlling interests	Total equity	
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings			Total
	(HK\$'000)												
	(Unaudited)												
As at 1 January 2018	16,662	3,395,474	36,768	177,764	176,893	1,101	153,975	(20,244)	12,460	1,157,031	5,107,884	57,983	5,165,867
Profit for the period	-	-	-	-	-	-	-	-	-	132,940	132,940	1,249	134,189
Other comprehensive income for the period:													
Remeasurement effects of defined benefit plans	-	-	-	-	-	(1,135)	-	-	-	-	(1,135)	-	(1,135)
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	5,533	-	5,533	-	5,533
Exchange differences on translation	-	-	-	-	(83,063)	-	-	-	-	-	(83,063)	1,440	(81,623)
Total comprehensive income for the period	-	-	-	-	(83,063)	(1,135)	-	-	5,533	132,940	54,275	2,689	56,964
Dividends	-	(83,401)	-	-	-	-	-	-	-	-	(83,401)	(8,461)	(91,862)
Contribution from a non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	3,434	3,434
Issue of shares	18	8,242	(1,925)	-	-	-	-	-	-	-	6,335	-	6,335
Equity-settled share option arrangements	-	-	10,301	-	-	-	-	-	-	-	10,301	-	10,301
At 30 June 2018 (unaudited)	16,680	3,320,315	45,144	177,764	93,830	(34)	153,975	(20,244)	17,993	1,289,971	5,095,394	55,645	5,151,039

Interim Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited) (HK\$'000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:	177,115	161,820
Adjustments for:		
Finance costs	73,706	57,357
Share of losses/(profits) of joint ventures	207	(402)
Interest income	(3,829)	(1,725)
Loss on disposal of items of property, plant and equipment	2,753	3,356
Fair value losses, net		
Cash flow hedges (transfer from equity)	(178)	–
Gain on wealth investment products	(1,028)	(402)
Depreciation and amortization	195,632	148,853
Write-down/(reversal) of inventories	6,514	(9,417)
(Reversal of)/provision for impairment of receivables	(399)	28,034
Equity-settled share option expense	20,742	10,301
	471,235	397,775
Decrease in inventories	127,751	229,536
Increase in trade and notes receivables	(133,281)	(54,039)
(Increase)/decrease in prepayments and other receivables	(23,654)	24,625
Increase in amounts due from a related party	(2,594)	(632)
Decrease in trade and notes payables	(70,772)	(122,415)
Decrease in other payables, advances from customers and accruals	(18,987)	(86,796)
Increase in amounts due to related parties	–	3,557
Increase in pledged bank deposits	(814)	(1,436)
Increase in other long-term assets	–	(1,151)
Decrease/(increase) in derivative financial assets	378	(11,022)
Increase/(decrease) in provisions	6,040	(4,043)
(Decrease)/increase in other liabilities	(2,893)	939
(Decrease)/increase in defined benefit plan liabilities	(4,206)	1,690
Cash generated from operations	348,203	376,588
Income tax paid	(25,095)	(65,129)
Net cash flows from operating activities	323,108	311,459

	Six months ended 30 June	
	2019	2018
	(Unaudited) (HK\$'000)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,829	3,181
Proceeds from disposal of items of property, plant and equipment	9,719	8,016
Gain on wealth investment products received	1,028	402
Purchase of items of property, plant and equipment	(134,479)	(166,117)
Additions to other intangible assets	(10,820)	(15,870)
Payment of acquisition related cost	–	(38,015)
Decrease in time deposits	3,447	84,054
Purchase of wealth investment products	(128,199)	–
Proceeds from disposed wealth investment products	128,199	138,088
Net cash flows (used in)/from investing activities	(127,276)	13,739
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	6,335
Proceeds from borrowings	2,768,752	575,126
Repayment of borrowings	(2,748,591)	(686,794)
Interest paid	(56,179)	(56,724)
Principal portion of lease payment	(36,148)	–
Interest portion of lease liabilities	(1,477)	–
Decrease in amounts due to related parties	–	(98,807)
Increase in pledged bank deposits	(24,099)	–
Dividends paid	–	(90,636)
Net cash flows used in financing activities	(97,742)	(351,500)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	98,090	(26,302)
Cash and cash equivalents at beginning of period	926,952	952,153
Effect of foreign exchange rate changes, net	(3,580)	(94,790)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,021,462	831,061

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

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 2019 were authorized for issue in accordance with a resolution of directors on 26 August 2019.

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 2019 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 2018.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards (“IFRSs”) effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC-23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2.2 Changes in Accounting Policies and Disclosures (Continued)

Other than as explained below regarding the impact of IFRS 16 “Leases”, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) Adoption of IFRS 16

IFRS 16 replaces IAS 17 “Leases”, IFRIC-Int 4 “Determining whether an Arrangement contains a Lease”, SIC-Int 15 “Operating Leases - Incentives” and SIC-Int 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. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings, plant and machinery, motor vehicles and furniture and fixtures. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

As a lessee - Leases previously classified as operating leases (Continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in non-current liabilities or current liabilities.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease)
	HK\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	251,686
Decrease in prepayments, other receivables and other assets	(2,623)
Increase in right-of-use assets	249,063
Liabilities	
Increase in lease liabilities	249,063

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	285,022
Incremental borrowing rate as at 1 January 2019	1.75% to 5.30%
Discounted operating lease commitments as at 1 January 2019	253,054
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(3,977)
Commitments relating to leases of low-value assets	(14)
Lease liabilities as at 1 January 2019	249,063

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets					Lease liabilities
	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Subtotal	
	(HK\$'000)					
	(Unaudited)					
As at 1 January 2019	220,064	3,739	10,197	17,686	251,686	249,063
Additions	6,184	144	4,340	44	10,712	10,712
Adjustments	(5,424)	(533)	–	(16,684)	(22,641)	(22,641)
Depreciation charge	(30,390)	(512)	(2,856)	(174)	(33,932)	–
Interest expense	–	–	–	–	–	4,760
Exchange realignment	(596)	(7)	(91)	(206)	(900)	(905)
Payments	–	–	–	–	–	(37,625)
As at 30 June 2019	189,838	2,831	11,590	666	204,925	203,364

The Group recognised rental expenses from short-term leases of HK\$24,760,000, leases of low-value assets of HK\$14,000, and variable lease payments not based on index or rate of HK\$80,000 (note 7), for the six months ended 30 June 2019.

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;
- (c) Non-durable products segment, which includes maternity and baby-care products and apparel and home textile products; and
- (d) 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 and render of testing services.

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 2019

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK\$'000)				
	(Unaudited)				
Segment revenue					
Sales to external customers	1,433,230	1,503,019	839,647	658,328	4,434,224
Segment results	629,322	694,388	419,106	172,285	1,915,101
<i>Reconciliation:</i>					
Other income and gains					36,386
Corporate and other unallocated expenses					(1,692,122)
Other expenses					(12,166)
Finance income					3,829
Finance costs					(73,706)
Share of profits and losses of joint ventures					(207)
Profit before tax					177,115
Other segment information:					
Impairment losses recognised in the statement of profit or loss	3,264	2,634	(153)	370	6,115
Depreciation and amortisation	73,265	76,064	21,859	24,444	195,632

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

3. Operating Segment Information (Continued)

Six months ended 30 June 2018

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK\$'000)				
	(Unaudited)				
Segment revenue					
Sales to external customers	1,379,905	1,473,938	836,427	735,432	4,425,702
Segment results	556,677	687,661	419,797	195,008	1,859,143
<i>Reconciliation:</i>					
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	3,518	3,093	18,617
Depreciation and amortisation	65,551	47,550	11,685	24,067	148,853

Geographical information

(a) Revenue from external customers

	European market	North America market	Mainland China market	Other overseas markets	Total
	(HK\$'000)				
	(Unaudited)				
Six months ended 30 June 2019					
Segment revenue:					
Sales to external customers	1,213,928	1,353,427	1,618,307	248,562	4,434,224
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

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

3. Operating Segment Information (Continued)

Geographical information (Continued)

(b) Non-current assets

	(HK\$'000)	
	2019	2018
	(Unaudited)	(Audited)
Mainland China	4,229,693	4,156,043
North America	1,057,887	1,015,832
Europe	939,312	880,694
	6,226,892	6,052,569

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 2019, revenue from sales to a major customer of third party accounting for 10% or more of the total net sales of the Group is HK\$446,050,000 (During the six months ended 30 June 2018: HK\$497,277,000). 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.

4. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
<i>Revenue from contracts with customers</i>	(Unaudited)	
Sales of goods	4,423,404	4,418,809
Rendering of testing services	10,820	6,893
	4,434,224	4,425,702

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

4. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2019

Segments	Strollers and accessories	Car seats and accessories	Non-durables	Others	Total
	HK\$'000 (Unaudited)				
Type of goods or services					
Sale of goods	1,433,230	1,503,019	839,647	647,508	4,423,404
Rendering of testing services	–	–	–	10,820	10,820
Total revenue from contracts with customers	1,433,230	1,503,019	839,647	658,328	4,434,224
Timing of revenue recognition					
Goods transferred at a point in time	1,433,230	1,503,019	839,647	647,508	4,423,404
Services transferred over time	–	–	–	10,820	10,820
Total revenue from contracts with customers	1,433,230	1,503,019	839,647	658,328	4,434,224
Revenue from contracts with customers					
External customers	1,433,230	1,503,019	839,647	658,328	4,434,224

For the six months ended 30 June 2018

Segments	Strollers and accessories	Car seats and accessories	Non-durables	Others	Total
	HK\$'000 (Unaudited)				
Type of goods or services					
Sale of goods	1,379,905	1,473,938	836,427	728,539	4,418,809
Rendering of testing services	–	–	–	6,893	6,893
Total revenue from contracts with customers	1,379,905	1,473,938	836,427	735,432	4,425,702
Timing of revenue recognition					
Goods transferred at a point in time	1,379,905	1,473,938	836,427	728,539	4,418,809
Services transferred over time	–	–	–	6,893	6,893
Total revenue from contracts with customers	1,379,905	1,473,938	836,427	735,432	4,425,702
Revenue from contracts with customers					
External customers	1,379,905	1,473,938	836,427	735,432	4,425,702

4. Revenue, Other Income and Gains (Continued)

	Six months ended 30 June	
	2019	2018
	(HK\$'000) (Unaudited)	
Other income and gains		
Government grants (note (a))	26,856	34,063
Compensation income (note (b))	2,767	2,620
Gain on sale of materials	–	101
Service fee income (note (c))	–	1,799
Gain on wealth investment products (note (d))	1,028	402
Fair value gains, net		
– Cash flow hedges (transfer from equity)	178	–
Others	5,557	4,664
Total	36,386	43,649

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 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.

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

5. Finance Income

	Six months ended 30 June	
	2019	2018
	(HK\$'000) (Unaudited)	
Interest income on bank deposits	3,829	1,725

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

6. Finance Costs

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
	(Unaudited)	
Interest expense on bank loans and borrowings	68,946	57,357
Interest expense on lease liabilities	4,760	–
	73,706	57,357

7. Profit Before Tax

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

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
	(Unaudited)	
Cost of inventories sold	2,514,615	2,563,897
Cost of services provided	4,508	2,662
Depreciation of property, plant and equipment	133,774	123,311
Depreciation of right-of-use assets	33,932	–
Amortisation of intangible assets	26,877	24,485
Amortisation of prepaid land lease payments	1,049	1,057
Research and development costs	163,564	172,034
Lease payments under operating leases in respect of properties	–	80,961
Short-term rental expenses	24,760	–
Low-value rental expenses	14	–
Variable rental expenses	80	–
Auditors' remuneration	4,804	5,028
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	824,309	861,693
Share option expense	20,742	10,301
Pension scheme costs (defined benefit plans)	407	1,618
Pension scheme contributions	34,475	35,462
	879,933	909,074
Net foreign exchange losses	6,699	6,730
Fair value losses, net:		
Cash flow hedges (transfer from equity)	(178)	–
(Reversal of)/provision for impairment of receivables	(399)	28,034
Write-down/(reversal) of inventories	6,514	(9,417)
Product warranties and liabilities	14,924	10,208
Loss on disposal of items of property, plant and equipment	2,753	3,356
Bank interest income	(3,829)	(1,725)

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 rate is 21%.

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 2020 and 2016 to 2019 respectively.

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

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
	(Unaudited)	
Current income tax		
– Charge for the period	56,590	51,480
Deferred income tax	(15,739)	(23,849)
Income tax expense recognised in the statement of profit or loss	40,851	27,631

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

9. Dividends

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: 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 1,668,023,166 in issue during the six months ended 30 June 2019 (six months ended 30 June 2018: 1,666,999,388).

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	
	2019	2018
	(HK\$'000) (Unaudited)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	135,760	132,940

	Number of shares Six months ended 30 June	
	2019	2018
	(Unaudited)	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,668,023,166	1,666,999,388
Effect of dilution-weighted average number of ordinary shares:		
Share options	–	8,012,007
Total	1,668,023,166	1,675,011,395

11. Property, Plant and Equipment

30 June 2019

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK\$'000)						
At 31 December 2018 and at 1 January 2019:							
Cost	567,552	1,091,414	24,250	445,748	173,478	97,625	2,400,067
Accumulated depreciation	(298,768)	(600,961)	(11,947)	(319,768)	(90,837)	–	(1,322,281)
Net carrying amount	268,784	490,453	12,303	125,980	82,641	97,625	1,077,786
At 1 January 2019, net of accumulated depreciation							
Cost	268,784	490,453	12,303	125,980	82,641	97,625	1,077,786
Additions	10,600	32,997	755	22,653	18,670	48,804	134,479
Disposals	(220)	(4,838)	(33)	(231)	(581)	(6,569)	(12,472)
Depreciation provided during the period	(15,683)	(67,156)	(1,518)	(29,887)	(19,530)	–	(133,774)
Transfers	6,926	18,598	–	3,056	3,660	(32,240)	–
Exchange realignment	(388)	(2,022)	(14)	(515)	(362)	(345)	(3,646)
At 30 June 2019, net of accumulated depreciation and impairment	270,019	468,032	11,493	121,056	84,498	107,275	1,062,373
At 30 June 2019:							
Cost	583,665	1,123,205	24,715	468,061	187,401	107,275	2,494,322
Accumulated depreciation and impairment	(313,646)	(655,173)	(13,222)	(347,005)	(102,903)	–	(1,431,949)
Net carrying amount	270,019	468,032	11,493	121,056	84,498	107,275	1,062,373

31 December 2018

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK\$'000)						
At 31 December 2017 and at 1 January 2018:							
Cost	586,471	972,755	16,282	416,196	128,956	95,161	2,215,821
Accumulated depreciation	(290,964)	(536,092)	(9,757)	(284,651)	(53,614)	–	(1,175,078)
Net carrying amount	295,507	436,663	6,525	131,545	75,342	95,161	1,040,743
At 1 January 2018, net of accumulated depreciation							
Cost	295,507	436,663	6,525	131,545	75,342	95,161	1,040,743
Additions	37,811	117,069	8,815	54,408	54,237	103,740	376,080
Disposals	(40,472)	(17,297)	(273)	(1,849)	–	(56)	(59,947)
Depreciation provided during the period	(24,571)	(107,758)	(2,303)	(56,821)	(43,286)	–	(234,739)
Transfers	12,462	80,735	–	3,592	685	(97,474)	–
Exchange realignment	(11,953)	(18,959)	(461)	(4,895)	(4,337)	(3,746)	(44,351)
At 31 December 2018, net of accumulated depreciation and impairment	268,784	490,453	12,303	125,980	82,641	97,625	1,077,786
At 31 December 2018:							
Cost	567,552	1,091,414	24,250	445,748	173,478	97,625	2,400,067
Accumulated depreciation and impairment	(298,768)	(600,961)	(11,947)	(319,768)	(90,837)	–	(1,322,281)
Net carrying amount	268,784	490,453	12,303	125,980	82,641	97,625	1,077,786

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12. Right-of-use Assets

The carrying amounts of the Group's right-of-use assets, and the movement during the period are as follows:

	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	(HK\$'000)				
As at 1 January 2019	220,064	3,739	10,197	17,686	251,686
Additions	6,184	144	4,340	44	10,712
Adjustments	(5,424)	(533)	–	(16,684)	(22,641)
Depreciation charge	(30,390)	(512)	(2,856)	(174)	(33,932)
Exchange realignment	(596)	(7)	(91)	(206)	(900)
Interest expense	–	–	–	–	–
As at 30 June 2019	189,838	2,831	11,590	666	204,925

13. Goodwill

	(HK\$'000)
Cost and net carrying amount at 31 December 2017 and 1 January 2018	2,789,325
Exchange realignment	(107,217)
Cost and net carrying amount at 31 December 2018 and 1 January 2019	2,682,108
Exchange realignment	(7,144)
Cost and net carrying amount at 30 June 2019	2,674,964

14. Other Intangible Assets

30 June 2019

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
(HK\$'000)						
At 31 December 2018 and at 1 January 2019:						
Cost	1,727,428	56,028	7,360	548,193	71,150	2,410,159
Accumulated amortisation	(29,197)	(34,531)	(6,898)	(75,789)	(25,705)	(172,120)
Net carrying amount	1,698,231	21,497	462	472,404	45,445	2,238,039
At 1 January 2019, net of accumulated amortisation						
Cost	1,698,231	21,497	462	472,404	45,445	2,238,039
Additions	1,169	24,377	–	–	476	26,022
Amortisation provided during the period	(876)	(5,514)	(786)	(17,441)	(2,260)	(26,877)
Exchange realignment	(4,169)	116	1	(1,313)	(2,294)	(7,659)
At 30 June 2019, net of accumulated depreciation	1,694,355	40,476	(323)	453,650	41,367	2,229,525
At 30 June 2019:						
Cost	1,724,038	80,037	7,291	546,556	69,467	2,427,389
Accumulated amortisation	(29,683)	(39,561)	(7,614)	(92,906)	(28,100)	(197,864)
Net carrying amount	1,694,355	40,476	(323)	453,650	41,367	2,229,525

31 December 2018

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
(HK\$'000)						
At 31 December 2017 and at 1 January 2018:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
Net carrying amount	1,778,526	15,023	2,135	523,942	51,573	2,371,199
At 1 January 2018, net of accumulated amortisation						
Cost	1,778,526	15,023	2,135	523,942	51,573	2,371,199
Additions	1,166	15,402	–	7,139	1,103	24,810
Disposals	–	(49)	–	–	–	(49)
Amortisation provided during the period	(2,061)	(7,350)	(1,633)	(36,908)	(5,720)	(53,672)
Exchange realignment	(79,400)	(1,529)	(40)	(21,769)	(1,511)	(104,249)
At 31 December 2018, net of accumulated depreciation	1,698,231	21,497	462	472,404	45,445	2,238,039
At 31 December 2018:						
Cost	1,727,428	56,028	7,360	548,193	71,150	2,410,159
Accumulated amortisation	(29,197)	(34,531)	(6,898)	(75,789)	(25,705)	(172,120)
Net carrying amount	1,698,231	21,497	462	472,404	45,445	2,238,039

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15. Inventories

	As at 30 June 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Raw materials	308,895	377,660
Work in progress	56,870	59,007
Finished goods	1,443,947	1,507,310
	1,809,712	1,943,977

16. Trade and Notes Receivables

	As at 30 June 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Trade receivables	1,260,966	1,130,128
Notes receivables	6,482	4,443
	1,267,448	1,134,571
Impairment for trade receivables	(36,728)	(37,531)
	1,230,720	1,097,040

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.

16. Trade and Notes Receivables (Continued)

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 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Within 3 months	1,162,129	1,025,437
3 to 6 months	34,245	41,173
6 months to 1 year	12,739	4,487
Over 1 year	15,125	21,500
	1,224,238	1,092,597

17. 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 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Within 3 months	1,129,095	1,269,572
3 to 12 months	231,388	160,124
1 to 2 years	6,582	8,301
2 to 3 years	1,346	1,265
Over 3 years	191	112
	1,368,602	1,439,374

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.

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18. Interest-Bearing Bank Loans and Other Borrowing

		As at 30 June 2019		As at 31 December 2018	
		Maturity	HK\$'000 (Unaudited)	Maturity	HK\$'000 (Audited)
Current					
Bank borrowings – secured	Note(b)	2019	359,938	2019	450,458
Bank borrowings – unsecured		2019	528	2019	56,405
Bank overdraft – secured	Note(a)	2019	273,263	2019	155,693
Bank overdraft – unsecured		2019	13,760		–
Current portion of long-term bank loans – secured	Note(b)	2020	65,378	2019	223,654
Promissory note	Note(c)	2019	1,250	2019	1,252
			714,117		887,462
Non-current					
Bank borrowings – secured	Note(b)	2020-2023	2,059,810	2020-2022	1,888,475
Promissory note	Note(c)	2020-2021	625	2021	1,253
			2,060,435		1,889,728
Total			2,774,552		2,777,190

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

Note (b): As at 30 June 2019, certain of the Group's bank loans are secured by:

- (i) A standby letter of credit from certain banks issued by a subsidiary of the Group; and
- (ii) 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 1.25% to 6% (2018: 0.60% to 6%).

19. Lease Liabilities

	As at 30 June 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Current	44,846	-
Non-current	158,518	-
	203,364	-

20. Derivative Financial Instruments

	As at 30 June 2019	
	Assets	Liabilities
	(HK\$'000) (Unaudited)	
Forward currency contracts		
– designated as hedging instruments	8,180	6,629

	As at 31 December 2018	
	Assets	Liabilities
	(HK\$'000) (Audited)	
Forward currency contracts		
– designated as hedging instruments	2,987	1,058

21. Share Capital

	Number of shares in issue	Issued capital
	('000)	(HK\$'000)
Issued and fully paid:		
At 1 January 2019	1,668,023	16,680
Share options exercised	-	-
At 30 June 2019	1,668,023	16,680

Details of the Group's share option scheme and the share options issued under the scheme are included in note 22 to the financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

22. Share Option Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. 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 11 May 2018. 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 higher 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.

22. Share Option Scheme (Continued)

The following share options were outstanding under the Scheme during the six months ended 30 June 2019:

	Weighted average exercise price	Number of options
	HK\$ per share	'000
At 1 January 2018	3.665	50,950
Granted during the year	4.600	112,300
Forfeited during the year	4.396	(28,447)
Exercised during the year	3.575	(1,772)
At 31 December 2018, 1 January 2019	4.299	133,031
Granted during the period	3.750	85,300
Forfeited during the period	4.254	(3,601)
At 30 June 2019	4.082	214,730

There was no share option exercised during six months ended 30 June 2019. The weighted average share price at the date of exercise for share options exercised during the six months ended 30 June 2018 was HK\$5.10 per share.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

22. Share Option Scheme (Continued)

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

30 June 2019

Number of options	Exercise price	Exercise period
'000	HK\$ per share	
7,594	3.58	29 September 2017 to 28 September 2024
9,092	3.58	29 September 2018 to 28 September 2024
8,393	3.58	29 September 2019 to 28 September 2024
4,617	3.75	7 October 2018 to 6 October 2028
4,617	3.75	7 October 2019 to 6 October 2028
4,617	3.75	7 October 2020 to 6 October 2028
1,000	3.88	28 August 2020 to 27 August 2027
1,000	3.88	28 August 2021 to 27 August 2027
1,000	3.88	28 August 2022 to 27 August 2027
15,460	4.54	27 September 2020 to 27 March 2028
23,190	4.54	27 September 2021 to 27 March 2028
38,650	4.54	27 September 2022 to 27 March 2028
2,040	5.122	28 May 2021 to 27 May 2028
3,060	5.122	28 May 2022 to 27 May 2028
5,100	5.122	28 May 2023 to 27 May 2028
17,060	3.750	23 May 2022 to 22 May 2029
25,590	3.750	23 May 2023 to 22 May 2029
42,650	3.750	23 May 2024 to 22 May 2029
214,730		

22. Share Option Scheme (Continued)**31 December 2018**

Number of options	Exercise price	Exercise period
'000	HK\$ per share	
7,594	3.58	29 September 2017 to 28 September 2024
9,260	3.58	29 September 2018 to 28 September 2024
8,560	3.58	29 September 2019 to 28 September 2024
5,039	3.75	7 October 2018 to 6 October 2025
5,039	3.75	7 October 2019 to 6 October 2025
5,039	3.75	7 October 2020 to 6 October 2025
1,000	3.88	28 August 2020 to 27 August 2027
1,000	3.88	28 August 2021 to 27 August 2027
1,000	3.88	28 August 2022 to 27 August 2027
15,760	4.54	27 September 2020 to 27 March 2028
23,640	4.54	27 September 2021 to 27 March 2028
39,400	4.54	27 September 2022 to 27 March 2028
2,140	5.122	28 May 2021 to 27 May 2028
3,210	5.122	28 May 2022 to 27 May 2028
5,350	5.122	28 May 2023 to 27 May 2028
133,031		

The Group recognised a share option expense of HK\$20,742,000 during the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$10,301,000).

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial tree 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 23 May 2019
Dividend yield (%)	1.50
Spot stock price (HK\$ per share)	1.87
Historical volatility (%)	35.30
Risk-free interest rate (%)	1.58
Expected life of options (year)	10

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.

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For the Six Months Ended 30 June 2019

22. Share Option Scheme (Continued)

There was no share option exercised during the period. The 1,772,000 share options exercised during six months ended 30 June 2018 resulted in the issue of 1,772,000 ordinary shares of the Company and new share capital of HK\$18,000 and share premium of HK\$6,317,000 (before issue expenses).

At the end of the reporting period, the Company had 214,730,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 214,730,000 additional ordinary shares of the Company and additional share capital of HK\$2,147,300 and share premium of HK\$874,278,170 (before issue expenses).

At the date of approval of these financial statements, the Company had 214,730,000 share options outstanding under the Scheme, which represented approximately 12.87% of the Company's shares in issue as at that date.

23. 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 30 June 2019	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	(HK\$'000)		
Trade and notes receivables	–	1,230,720	1,230,720
Financial assets included in prepayments and other receivables	–	296,082	296,082
Due from a related party	–	14,165	14,165
Derivative financial instruments	8,180	–	8,180
Other long-term assets	3,953	5,299	9,252
Pledged bank deposits	–	24,913	24,913
Cash and cash equivalents	–	1,021,462	1,021,462
	12,133	2,592,641	2,604,774

23. Financial Instruments by Category (Continued)

Financial assets (Continued)

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	(HK\$'000)		
As at 31 December 2018			
Trade and notes receivables	–	1,097,040	1,097,040
Financial assets included in prepayments and other receivables	–	303,536	303,536
Due from a related party	–	11,571	11,571
Derivative financial instruments	2,987	–	2,987
Other long-term assets	4,287	3,712	7,999
Time deposits	–	3,447	3,447
Cash and cash equivalents	–	926,952	926,952
	7,274	2,346,258	2,353,532

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	(HK\$'000)		
As at 30 June 2019			
Financial liabilities included in other payables and accruals	–	205,735	205,735
Trade and bills payables	–	1,368,602	1,368,602
Interest-bearing bank loans and other borrowings	–	2,774,552	2,774,552
Derivative financial instruments	6,629	–	6,629
Lease liabilities	–	203,364	203,364
Other liabilities	–	11,087	11,087
	6,629	4,563,340	4,569,969

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	(HK\$'000)		
As at 31 December 2018			
Financial liabilities included in other payables and accruals	–	185,708	185,708
Trade and bills payables	–	1,439,374	1,439,374
Interest-bearing bank loans and other borrowings	–	2,777,190	2,777,190
Derivative financial instruments	1,058	–	1,058
Other liabilities	–	10,951	10,951
	1,058	4,413,223	4,414,281

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24. 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:

Financial assets

	Carrying amount	Fair value
	(HK\$'000)	
	(Unaudited)	
30 June 2019		
Derivative financial instruments	8,180	8,180
Other long-term assets – call options over non-controlling interests	3,953	3,953
	12,133	12,133

	Carrying amount	Fair value
	(HK\$'000)	
	(Audited)	
31 December 2018		
Derivative financial instruments	2,987	2,987
Other long-term assets – call options over non-controlling interests	4,287	4,287
	7,274	7,274

Financial liabilities

	Carrying amount	Fair value
	(HK\$'000)	
	(Unaudited)	
30 June 2019		
Derivative financial instruments	6,629	6,629
Other non-current liabilities – put options over non-controlling interests	11,087	11,087
Interest-bearing bank loans and other borrowing	2,774,552	2,774,552
Total	2,792,268	2,792,268

	Carrying amount	Fair value
	(HK\$'000)	
	(Audited)	
31 December 2018		
Derivative financial instruments	1,058	1,058
Other non-current liabilities – put options over non-controlling interests	10,951	10,951
Interest-bearing bank loans and other borrowing	2,777,190	2,777,190
Total	2,789,199	2,789,199

24. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

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 forward currency contracts with various counterparties, principally financial institutions with high credit ratings. The 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.

The Group adopts Black-Scholes option valuation model in determining the fair value of the call option over non-controlling interests. The assumptions made are not supported by observable market price or interest rate. The Group believes that the fair value estimated using valuation techniques is reasonable and the most appropriate value as of the balance sheet date.

For put option over non-controlling interests, the fair values are determined as the present values of the future payments to be made when the options are exercised. The assumptions made are not supported by observable market price or interest rate. Discount rates need to be estimated. The Group believes that the fair value estimated using valuation techniques is reasonable and the most appropriate value as of the balance sheet date.

As at 30 June 2019, 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.

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24. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy

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

Assets measured at fair value:

	30 June 2019	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
(HK\$'000)				
Financial assets at fair value through profit or loss				
– Call options over non-controlling interests	3,953	–	–	3,953
Derivative financial instruments	8,180	–	8,180	–
	12,133	–	8,180	3,953

	31 December 2018	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
(HK\$'000)				
Financial assets at fair value through profit or loss				
– Call option over non-controlling interests	4,287	–	–	4,287
Derivative financial instruments	2,987	–	2,987	–
	7,274	–	2,987	4,287

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

	30 June 2019	31 December 2018
	(HK\$'000)	
At 1 January	4,287	142,248
Remeasurement recognised in other income and gains	–	(1,745)
Purchases	128,199	153,877
Disposals	(128,199)	(290,000)
Exchange realignment	(334)	(93)
	3,953	4,287

24. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

	30 June 2019	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
		(HK\$'000)		
Put options over non-controlling interests	11,087	-	-	11,087
Derivative financial instruments	6,629	-	6,629	-
Interest-bearing bank loans and other borrowing	2,774,552	-	2,774,552	-
	2,792,268	-	2,781,181	11,087

	31 December 2018	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
		(HK\$'000)		
Put option over non-controlling interests	10,951	-	-	10,951
Derivative financial instruments	1,058	-	1,058	-
Interest-bearing bank loans and other borrowings	2,777,190	-	2,777,190	-
	2,789,199	-	2,778,248	10,951

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

	30 June 2019	31 December 2018
	(HK\$'000)	
At 1 January	10,951	10,460
Remeasurement recognised in other income and gains	-	1,211
Exchange realignment	136	(720)
	11,087	10,951

During the period ended 30 June 2019, 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

25. Commitments

The Group had the following capital commitments as at 30 June 2019 and 31 December 2018:

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
(HK\$'000)		
Contracted, but not provided for in respect of the acquisition of:		
Property, plant and equipment	8,456	8,100

26. 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 Group Ping Xiang Co., Ltd. (“GGPX”)	Wholly owned by GGCL
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
Mothercare-Goodbaby Retailing Co., Ltd. (“MGRL”)	Ultimately owned by CAGB

26. Related Party Transactions and Balances (Continued)**(b) Related party transactions**

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

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
	(Unaudited)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries [#]	14,398	13,184
Rental expense to related parties (note (b))		
GGPX [#]	-	6,508
GGCL [#]	-	429
	-	6,937
Lease liabilities interest paid by the Group as a lessee to a related party (note (b))		
GGPX [#]	293	-
Expenses paid on behalf of a related party (note (c))		
GGCL [#]	-	248

Note (a): The sales/purchases of goods and service to/from related parties were made according to the prices and terms mutually agreed between the related parties.

Note (b): The rental contracts with related parties were made according to the prices and terms offered by the related party.

Note (c): Expenses paid on behalf of a related party are interest-free and repayable on demand.

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

(c) Outstanding balances with related parties

	As at 30 June 2019	As at 31 December 2018
	(HK\$'000)	
	(Unaudited)	(Audited)
Amounts due from a related party:		
MGRL	14,165	11,571
Right-of-use assets in relation to buildings recognized by the Group as a lessee to a related party		
GGPX	37,701	-

The amounts due from a related party is unsecured, interest-free and repayable within 120 days upon the date of invoice.

Notes to the Interim Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

26. Related Party Transactions and Balances (Continued)

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019	2018
	(HK\$'000)	
	(Unaudited)	
Short term employee benefits	21,775	22,153
Equity-settled share option expense	7,422	3,495
Post-employment benefits	295	522
Total compensation paid to key management personnel	29,492	26,170

27. Approval of the Financial Statements

The unaudited interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 26 August 2019.

Goodbaby

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Stock Code: 1086

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