

# 2018 INTERIM REPORT

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# CORPORATE INFORMATION



# CORPORATE INFORMATION

## DIRECTORS

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTORS

Ms. Fu Jingqiu  
Mr. Ho Kwok Yin, Eric

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## 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

Ernst & Young  
Certified Public Accountants  
22nd Floor CITIC Tower  
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## LEGAL ADVISOR

As to Hong Kong law

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## PRINCIPAL 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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# MANAGEMENT DISCUSSION AND ANALYSIS





# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

As reported, we recorded growth in revenue and operating profit for the Period. Our revenue for the six months ended 30 June 2018 (“the Period”) increased by 34.3% to approximately HK\$4,425.7 million from HK\$3,295.6 million for the corresponding period in 2017. Our reported gross profit increased by 55.6% to HK\$1,859.1 million for the Period from HK\$1,195.1 million for the corresponding period in 2017. Our reported operating profit increased by 21.0% to HK\$217.1 million for the Period from HK\$179.4 million for the corresponding period in 2017 and on a non-GAAP<sup>1</sup> basis, our operating profit increased by 46.0% to approximately HK\$284.2 million for the Period from approximately HK\$194.7 million for the corresponding period in 2017.

On a pro forma non-GAAP basis<sup>2</sup>, our revenues for the Period increased by 6.1% to approximately HK\$4,425.7 million vs. approximately HK\$4,172.2 million for the corresponding period in 2017, and operating profit decreased 19.3% to approximately HK\$289.0 million from HK\$358.1 million in the same period 2017.

1. We adopted non-GAAP financial measures in order to more meaningfully illustrate the financial results of the Group’s ordinary business, and to be more consistent with what we believe to be the industry practice. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company’s financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies. Please refer to the section headed “Non-GAAP Financial Measures” for details.
2. We presented the pro forma, non-GAAP basis (“pro forma”) consolidated financial figures for the purpose of illustrating the effect on the revenue and non-GAAP operating profit of the Original Business and Acquired Business as if the Acquisition had been completed on 1 January 2017. The pro forma consolidated financial figures have been prepared for the illustrative purposes only and are based on a number of assumptions, estimates and uncertainties. The pro forma consolidated financial figures should be considered in addition to, not as a substitute for, analysis of the Company’s financial performance prepared in accordance with IFRS. The Original Business represents the business of the Group excluding the Acquired Business. The Acquired Business refers to the business acquired by the Group through the Acquisition. The Acquisition refers to the Group’s acquisition of Oasis Dragon Limited which was completed on 23 October 2017.

During the Period, we realized strong performance from:

- Cybex global performance fueled by new product introductions and channel expansion. During the Period, we recorded approximately HK\$955.8 million revenue from Cybex brand, representing 24.9% year-on-year growth;
- gb non-durables business in China market and gb durables business in international markets with rebranded products/image. During the Period, we recorded approximately HK\$832.8 million and HK\$167.1 million revenue from gb non-durables business in China and gb durables business in international market representing 27.7% and 68.1% year-on-year growth respectively; and
- Rebound of Blue Chip business. During the Period, we recorded approximately HK\$611.5 million revenue from Blue Chip business representing 8.8% year-on-year growth.

and were negatively impacted by:

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

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

## EXECUTIVE SUMMARY

### CONTINUED COMMITMENT TO OUR STRATEGIC BRANDS

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

- Region APAC**

In the China market, we recorded revenue of approximately HK\$1,709.3 million in the Period against HK\$1,622.0 million in the corresponding period in 2017. This overall increase of 5.4% is primarily driven by the continued strong profitable growth of 27.7% in the non-durables sector. In non-durables, we recorded 26.2% growth in baby care and 30.5% growth in apparel and home textile products. Offsetting this increase is a 17.2% decline in gb durable products resulting from higher organizational prioritization during the transition toward our consumer centric retail model which currently features non durable products.

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

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

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

- Region EMEA**

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

- **Region Americas**

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

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

### BLUE CHIP

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

### INNOVATION AND TECHNOLOGY

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

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

### PRODUCTION AND SUPPLY CHAIN

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

## OUTLOOK

While the financial performance during the Period has been impacted primarily by two short term challenges — we are confident the fundamentals of our overall commercial business platforms are performing in line with our strategic plan. The impact of the TRU/BRU liquidation will diminish during the remainder of

2018 as we reposition our revenues into other channels and we will complete the China market durables transition into our consumer centric retail model, restoring our financial performance to historical growth levels in revenue and profitability.

## FINANCIAL REVIEW<sup>1</sup>

### REVENUE

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

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

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

1. All financial numbers in this Financial Review section are from the Group's consolidated accounts as reported.
2. Certain immaterial reclassifications were included.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

### COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

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

### OTHER INCOME AND GAINS

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

### SELLING AND DISTRIBUTION COSTS

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

### ADMINISTRATIVE EXPENSES

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

### OTHER EXPENSES

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

### OPERATING PROFIT

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

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

### FINANCE INCOME

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

### FINANCE COSTS

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

### PROFIT BEFORE TAX

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

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

### INCOME TAX EXPENSE

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

### PROFIT FOR THE PERIOD

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

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

### NON-GAAP FINANCIAL MEASURES

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

### WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 30 June 2018 (HK\$ million)	As at 31 December 2017 (HK\$ million)
Trade and notes receivables (including trade receivables due from a related party)	1,198.3	1,171.7
Trade and notes payables	1,190.2	1,312.6
Inventories	1,641.2	1,861.3



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

Notes:

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

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

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

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### CONTINGENT LIABILITIES

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

### EXCHANGE RATE FLUCTUATIONS

The Group is a multinational enterprise with operations in different countries and the money that it used to conduct its business and transaction are denominated in various currencies, and the Group uses the Hong Kong dollar (“HK\$”) as its reporting currency, which is pegged to U.S. dollar (“US\$”). The Group’s revenue is mainly denominated in US\$, Renminbi (“RMB”) and Euro. The Group’s procurement and operating expenses are mainly denominated in RMB, US\$ and Euro. The net exposures to foreign currency risks of the Group’s operating results are mainly the US\$ and Euro revenue against RMB procurement and operating expenses. The Group would benefit from the appreciation of US\$ and Euro against RMB but would suffer losses if US\$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

### PLEDGE OF ASSETS

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

### GEARING RATIO

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

### EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

## 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 cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of Share options outstanding at the end of the period	Date of grant	Period during which share options are exercisable	Exercise price per share	Closing Price of the shares at the date of grant
									(HK\$)	
Employees of the subsidiaries of the Company	20,000	0	0	14,000	6,000	0	3 January 2012	(i) 0 share options: 3 January 2013 to 2 January 2018	2.12	2.12
								(ii) 0 share options: 3 January 2015 to 2 January 2018		
								(iii) 0 share options: 3 January 2016 to 2 January 2018		
								(iv) 0 share options: 3 January 2017 to 2 January 2018		
Directors of the Company, employees of the Group and Ms. Fu Jingqiu	28,780,000	0	0	0	1,766,000	27,014,000	29 September 2014	(i) 7,593,992 share options: 29 September 2017 to 28 September 2024	3.58	3.40
								(ii) 10,059,993 share options: 29 September 2018 to 28 September 2024		
								(iii) 9,360,015 share options: 29 September 2019 to 28 September 2024		
Employees of the Group	17,650,000	0	0	1,200,000	0	16,450,000	7 October 2015	(i) 5,483,333 share options: 7 October 2018 to 6 October 2025	3.75	3.75
								(ii) 5,483,333 share options: 7 October 2019 to 6 October 2025		
								(iii) 5,483,334 share options: 7 October 2020 to 6 October 2025		

Name of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of Share options outstanding at the end of the period	Date of grant	Period during which share options are exercisable	(HK\$)	
									Exercise price per share	Closing Price of the shares at the date of grant
Employees of the Group	4,500,000	0	0	0	0	4,500,000	28 August 2017	(i) <b>1,500,000</b> share options: 28 August 2020 to 27 August 2027	3.88	3.88
								(ii) <b>1,500,000</b> share options: 28 August 2021 to 27 August 2027		
								(iii) <b>1,500,000</b> share options: 28 August 2022 to 27 August 2027		
Directors of the Company, and employees of the Group	0	100,800,000	0	0	0	100,800,000	27 March 2018	(i) <b>20,160,000</b> share options: 27 September 2020 to 28 March 2028	4.54	4.54
								(ii) <b>30,240,000</b> share options: 27 September 2021 to 28 March 2028		
								(iii) <b>50,400,000</b> share options: 27 September 2022 to 28 March 2028		
Employees of the Group	0	11,500,000	0	0	0	11,500,000	28 May 2018	(i) <b>2,300,000</b> share options: 28 May 2021 to 27 May 2028	5.122	4.87
								(ii) <b>3,450,000</b> share options: 28 May 2022 to 27 May 2028		
								(iii) <b>5,750,000</b> share options: 28 May 2023 to 27 May 2028		

### 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, SALES OR REDEMPTION OF SHARES

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

### DIVIDENDS

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

### CORPORATE GOVERNANCE

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

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

### SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER RULE 13.18 OF THE LISTING RULES

As at 30 June 2018, the Company had an existing term loan facility pursuant to an agreement dated 19 October 2017 entered into between Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company, as the borrower, with a financial institution as the lender in relation to a term loan facility in an amount of US\$100,000,000 with the maturity date falling 36 months from the utilization date, which contains specific performance obligations imposed on the controlling shareholder of the Company.

Pursuant to the terms of the facility agreement, if Mr. Song Zhenghuan ("Mr. Song") (together with members of the Concert Group) ceases to: (a) on or prior to the completion (the "Completion") of the agreement dated 24 July 2017 entered into between the Company as the purchaser and Goodbaby China Holdings Limited as the vendor in relation to the acquisition of the entire issued capital of Oasis Dragon Limited, be the beneficial owner (directly or indirectly) of at least 15% of the issued share capital of the Company; or (b) at any time after the Completion: (i) be the single largest beneficial owner of the issued share capital of the Company; or (ii) be the beneficial owner (directly or indirectly) of at least 30% of the issued share capital of the Company, the lender will not be obliged to fund the loan and it may cancel the commitment under the facility agreement and declare the outstanding loan, together with accrued interests and all other amounts accrued under certain finance documents in connection with the facility agreement, to be immediately due and payable.



For the purpose of the facility agreement, members of the concert group include: (i) Ms. Fu Jingqiu; (ii) Ms. Sharon Nan Kobler; (iii) Mr. Liu Tongyou; (iv) Mr. Michael Nan Qu; (v) Mr. Wang Haiye; (vi) any trust established for estate or family wealth planning the settlor(s) of which comprise solely of Mr. Song and/or any one or more individuals referred to in (i) to (vi) above (the “Concert Group”).

The abovementioned loan was fully repaid on 23 July 2018.

To refinance certain existing 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 “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 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 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\$152,000,000 remains outstanding in respect of this Facility Agreement.

Save as disclosed above, as at 30 June 2018, 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.

## OTHER INFORMATION

### INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2018, 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	Approximate percentage of Shareholding
Mr. Song Zhenghuan (Notes 2&5)	Beneficiary of a trust/Beneficial owner/Interest of controlled corporation	768,822,427 (L)	46.09%
Mr. Martin Pos	Beneficial owner	76,433,498 (L)	4.58%
Mr. Michael Nan Qu	Beneficial owner	1,600,000 (L)	0.095%
Mr. Liu Tongyou (Note 3)	Beneficial owner/Interest of controlled corporation	31,457,573 (L)	1.88%
Ms. Fu Jinqiu (Notes 2&5)	Beneficiary of a trust/Beneficial owner	768,822,427 (L)	46.09%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,400,000 (L)	0.083%
Mr. Iain Ferguson Bruce	Beneficial owner	1,200,000 (L)	0.071%
Mr. Shi Xiaoguang	Beneficial owner	1,200,000 (L)	0.071%
Ms. Chiang Yun	Beneficial owner	1,200,000 (L)	0.071%
Mr. Jin Peng	Beneficial owner	400,000 (L)	0.02%
Mr. Xia Xinyue	Beneficial owner	20,000,000 (L)	1.19%
Mr. Yang Ilcheul	Beneficial owner	20,000,000 (L)	1.19%

Notes:

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) Mr. Song and Ms. Fu are beneficiaries of Grappa Trust and Golden Phoenix Trust of which Credit Suisse Trust Limited (Singapore) and Credit Suisse Trust Limited (Guernsey) are the trustee respectively. See notes (2) to (4) of the section headed “Substantial Shareholders’ Interests and Short Positions” for further details of this 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 2,400,000 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 Securities and Futures Ordinance (“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	1,600,000
Mr. Liu Tongyou	2,400,000
Mr. Fu Jinqiu	1,390,000
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. Yang Ilcheul	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 2018, 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 2018, 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	Interest of Controlled Corporation	99,189,000 (L)	5.94%
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%
Amundi Ireland Ltd	Investment Manager	84,333,000 (L)	5.22%
Invesco Hong Kong Limited	Investment manager	83,816,000 (L)	5.02%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) PUD is owned as to approximately 51.32% by Cayey Enterprises Limited, which in turn is, as at 30 June 2018, 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 2018, 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.

## OTHER INFORMATION

### IMPORTANT EVENTS AFTER THE PERIOD

On 28 August 2018, the Company entered into the following agreements to renew and supplement the corresponding existing agreements:

1. the agreement entered into between 好孩子兒童用品平鄉有限公司 (Goodbaby Child Products Pingxiang Co., Ltd.\*) (“GCPX”) and 好孩子集團平鄉有限公司 (Goodbaby Group Pingxiang Co., Ltd.\*) (“GGPX”) in relation to the renewal and supplement of the agreement dated 7 October 2015 entered into between GCPX and GGPIX;
2. the agreement entered into between 好孩子兒童用品有限公司 (Goodbaby Child Products Co., Ltd.\*) (“GCPC”) and GGPIX in relation to the renewal and supplement of the agreement dated 7 October 2015 entered into between GCPC and GGPIX; and
3. the agreement entered into between the Company and 好孩子中國控股有限公司 (Goodbaby China Holdings Limited) in relation to the supply of products including (i) durable juvenile products of strollers, children’s car seats, cribs, children’s bicycles and other durable juvenile products under the “CYBEX”, “Evenflo”, “gb”, “Happy Dino” and other brands; and (ii) non-durable juvenile products of infant, hygiene care, wipes, apparels, footwear and accessories and other non-durable juvenile products under “gb”, “Happy Dino” and other brands.

Except as disclosed above, no other important events affecting the Group has taken place since 30 June 2018 and up to the date of this interim 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 2017 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. Xia Xinyue

Appointment as the chief operating officer of the Group, with effect from 29 May 2018 and director of the following members of the Group:

- (i) Ningbo Goodbaby Child Products Co., Ltd (寧波好孩子兒童用品有限公司), with effect from 24 January 2018;
- (ii) Paragon Child Products Co., Ltd (昆山百瑞康兒童用品有限公司) with effect from 26 March 2018;
- (iii) Goodbaby Child Products Co., Ltd (好孩子兒童用品有限公司), with effect from 26 March 2018;
- (iv) Jiangsu EQO Testing Services Co., Ltd (江蘇億科檢測技術服務有限公司) with effect from 6 June 2018; and
- (v) Goodbaby Child Product Pingxiang Co., Ltd (好孩子兒童用品平鄉有限公司), with effect from 22 August 2018.

**Ms. Chiang Yun (update of disclosure under Rule 13.51(2)(c) (ii))**

Appointment as chief executive officer and managing partner of Prospere Capital Limited with effect from 1 April 2018.

**Mr. Yang Ilcheul**

Appointment as director of the following members of the Group:

- (i) Goodbaby (China) Retail & Service Company (好孩子(中國)零售服務有限公司) with effect from 19 Junany 2018;
- (ii) Shanghai Goodbaby Fashion Co., Ltd (上海好孩子兒服飾有限公司) with effect from 14 March 2018;
- (iii) Goodbaby Nantong Fashion Limited (好孩子南通服飾有限公司) with effect from 25 April 2018;
- (iv) Goodbaby (Fuyang) Commercial Company Limited (好孩子(阜陽)商貿有限公司) with effect from 17 April 2018;
- (v) Goodbaby (Qingdao) Commercial Company Limited (好孩子(青島)商貿有限公司) with effect from 17 April 2018.

**Mr. Song Zhenghuan**

Mr. Song Zhenhuan's resignation as director of Jiangsu EQO Testing Services Co., Ltd with effect from 6 June 2018

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 2017 annual report of the Company.

For and on behalf of the Board of Directors

**Song Zhenghuan**  
*Chairman*

28 August 2018

**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 31 to 76, which comprises the condensed consolidated financial statements of financial position of Goodbaby International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and 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 condensed consolidated financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS34”) issued by the International Accounting Standards Board (the “IASB”).

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagements, 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. Consequently, it 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 accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
28 August 2018



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	2018	2017
		(Unaudited) (HK\$'000)	
Profit for the period		134,189	125,923
<b>Other comprehensive income/(loss)</b>			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		25,794	(24,181)
Reclassification adjustments for (gains)/losses included in the consolidated statement of profit or loss		(17,574)	7,840
Income tax effect		(2,687)	2,451
		5,533	(13,890)
Exchange differences:			
Exchange differences on translation of foreign operations		(81,623)	92,617
<b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>		<b>(76,090)</b>	<b>78,727</b>
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial (losses)/gains of defined benefit plans		(1,135)	5,199
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		(1,135)	5,199
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b>(77,225)</b>	<b>83,926</b>
<b>Total comprehensive income for the period</b>		<b>56,964</b>	<b>209,849</b>
Attributable to:			
Owners of the parent		54,275	207,652
Non-controlling interests		2,689	2,197
		56,964	209,849

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018	31 December 2017
		(Unaudited)	(Audited)
		(HK\$'000)	
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	1,052,899	1,040,743
Prepaid land lease payments		54,057	55,740
Goodwill	12	2,762,930	2,789,325
Other intangible assets	13	2,329,906	2,371,199
Investment in joint ventures		5,002	5,216
Deferred tax assets		146,418	112,980
Other long-term assets		8,375	7,224
<b>Total non-current assets</b>		<b>6,359,587</b>	<b>6,382,427</b>
<b>CURRENT ASSETS</b>			
Inventories	14	1,641,157	1,861,276
Trade and notes receivables	15	1,197,743	1,171,738
Prepayments and other receivables		411,012	337,215
Due from a related party	25	632	–
Available-for-sale investments	16	–	138,088
Derivative financial instruments	19	35,439	22,250
Cash and cash equivalents		831,061	952,153
Time deposits		–	84,054
Pledged time deposits		16,806	15,370
<b>Total current assets</b>		<b>4,133,850</b>	<b>4,582,144</b>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	17	1,190,158	1,312,573
Other payables, advances from customers and accruals		780,818	904,996
Interest-bearing bank loans and other borrowing	18	1,234,245	1,341,663
Due to related parties	25	3,893	99,143
Income tax payable		48,589	55,483
Provisions		37,027	39,200
Derivative financial instruments	19	6,575	4,408
Defined benefit plan liabilities		392	391
Dividends payable		8	8
<b>Total current liabilities</b>		<b>3,301,705</b>	<b>3,757,865</b>
<b>NET CURRENT ASSETS</b>		<b>832,145</b>	<b>824,279</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018	31 December 2017
		(Unaudited)	(Audited)
(HK\$'000)			
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		7,191,732	7,206,706
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans and other borrowing	18	1,390,263	1,395,136
Provisions		52,847	54,717
Defined benefit plan liabilities		13,873	11,049
Other liabilities		15,028	14,089
Deferred tax liabilities		568,682	565,848
Total non-current liabilities		2,040,693	2,040,839
<b>Net assets</b>		<b>5,151,039</b>	<b>5,165,867</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	16,680	16,662
Reserves		5,078,714	5,091,222
		5,095,394	5,107,884
Non-controlling interests		55,645	57,983
<b>Total equity</b>		<b>5,151,039</b>	<b>5,165,867</b>

**SONG Zhenghuan**  
Director

**LIU Tongyou**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	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)												
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)
<b>Total comprehensive income for the period</b>	–	–	–	–	(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
<b>At 30 June 2018 (Unaudited)</b>	<b>16,680</b>	<b>3,320,315</b>	<b>45,144</b>	<b>177,764</b>	<b>93,830</b>	<b>(34)</b>	<b>153,975</b>	<b>(20,244)</b>	<b>17,993</b>	<b>1,289,971</b>	<b>5,095,394</b>	<b>55,645</b>	<b>5,151,039</b>

	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)												
As at 1 January 2017	11,151	1,171,846	41,748	160,965	(71,800)	(1,841)	153,975	(20,244)	–	994,480	2,440,280	37,882	2,478,162
Profit for the period	–	–	–	–	–	–	–	–	–	124,704	124,704	1,219	125,923
Other comprehensive income for the period:													
Remeasurement effects of defined benefit plans	–	–	–	–	–	5,199	–	–	–	–	5,199	–	5,199
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	(13,890)	–	(13,890)	–	(13,890)
Exchange differences on translation	–	–	–	–	91,639	–	–	–	–	–	91,639	978	92,617
<b>Total comprehensive income for the period</b>	–	–	–	–	91,639	5,199	–	–	(13,890)	124,704	207,652	2,197	209,849
Dividends	–	(55,885)	–	–	–	–	–	–	–	–	(55,885)	(1,721)	(57,606)
Issue of shares	45	13,324	(3,886)	–	–	–	–	–	–	–	9,483	–	9,483
Equity-settled share option arrangements	–	–	8,047	–	–	–	–	–	–	–	8,047	–	8,047
<b>At 30 June 2017 (Unaudited)</b>	<b>11,196</b>	<b>1,129,285</b>	<b>45,909</b>	<b>160,965</b>	<b>19,839</b>	<b>3,358</b>	<b>153,975</b>	<b>(20,244)</b>	<b>(13,890)</b>	<b>1,119,184</b>	<b>2,609,577</b>	<b>38,358</b>	<b>2,647,935</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	
	(HK\$'000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax:	161,820	152,209
Adjustments for:		
Depreciation and amortisation	148,853	103,936
Loss on disposal of items of property, plant and equipment	3,356	3,623
Fair value losses, net		
Cash flow hedges (transfer from equity)	–	7,840
Gain on wealth investment products	(402)	(215)
Share of profits of joint ventures	(402)	–
(Reversal of)/write-down of inventories	(9,417)	3,329
Impairment of receivables	28,034	311
Equity-settled share option expense	10,301	8,047
Interest expense	57,357	29,011
Interest income	(1,725)	(1,794)
Increase/(decrease) in defined benefit plan liabilities	1,690	(4,111)
Decrease/(increase) in inventories	229,536	(158,965)
Increase in trade and notes receivables	(54,039)	(93,672)
Decrease/(increase) in prepayments and other receivables	24,625	(45,361)
Increase in amounts due from related parties	(632)	(171,639)
Decrease in amounts due to related parties	3,557	–
Increase in pledged time deposits	(1,436)	(11,314)
Increase in derivative financial assets	(11,022)	–
(Decrease)/increase in trade and notes payables	(122,415)	240,797
(Decrease)/increase in other payables, advances from customers and accruals	(86,796)	27,768
Decrease in provisions	(4,043)	(34,242)
Increase in other non-current liabilities	939	1,157
Increase in other long term assets	(1,151)	(525)
Income tax paid	(65,129)	(6,116)
<b>Net cash flows generated from operating activities</b>	<b>311,459</b>	<b>50,074</b>

	Six months ended 30 June	
	2018	2017
	(Unaudited) (HK\$'000)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of items of property, plant and equipment	8,016	14,740
Interest received	3,181	1,794
Gain on wealth investment products received	402	215
Purchase of items of property, plant and equipment	(166,117)	(94,802)
Purchases of available-for-sale investments	–	(38,872)
Increase in other long-term assets	–	(13,780)
Purchase of other intangible assets	(15,870)	(4,364)
Payment of acquisition related cost	(38,015)	–
Decrease of time deposits	84,054	–
Proceeds from disposed available-for-sale investments	138,088	–
Net cash flows generated from/(used in) investing activities	13,739	(135,069)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	6,335	9,483
Proceeds from borrowings	575,126	838,105
Repayment of borrowings	(686,794)	(648,472)
Interest paid	(56,724)	(27,320)
Decrease in amounts due to a related party	(98,807)	–
Increase in pledged time deposits	–	(80,748)
Dividends paid	(90,636)	(55,885)
Net cash flows (used in)/generated from financing activities	(351,500)	35,163
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(26,302)	(49,832)
Cash and cash equivalents at beginning of year	952,153	758,153
Effect of foreign exchange rate changes, net	(94,790)	20,271
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>831,061</b>	<b>728,592</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 1. CORPORATE INFORMATION

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

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

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

### 2.1 BASIS OF PREPARATION

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

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

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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



## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

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

### IFRS 9 FINANCIAL INSTRUMENTS

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### IFRS 9 FINANCIAL INSTRUMENTS (Continued)

#### Changes to classification and measurement

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

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

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

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

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

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

#### Changes to the impairment calculation

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and notes receivables. The Group applies the general approach of financial assets included in prepayments, deposits and other receivables and amounts due from related parties.

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

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

### 3. OPERATING SEGMENT INFORMATION

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

- (a) Strollers and accessories segment, which engages in the research, design, manufacture and sale of strollers and accessories under the Group's own brands and third parties' brands;
- (b) Car seats and accessories segment, which engages in the research, design, manufacture and sale of car seats and accessories under the Group's own brands and third parties' brands; and
- (c) Others segment, which engages in the research, design, manufacture and sale of other children's products under the Group's own brands and third parties' brands.

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

#### Six months ended 30 June 2018

	Strollers and accessories	Car seats and accessories	Other durable juvenile products	Consolidated
	(HK\$'000)			
	(Unaudited)			
<b>Segment revenue</b>				
<b>Sales to external customers</b>	1,379,905	1,473,938	1,571,859	4,425,702
<b>Segment results</b>	556,677	687,661	614,805	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
<b>Profit before tax</b>				<b>161,820</b>
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	5,767	6,239	6,611	18,617
Depreciation and amortisation	65,551	47,550	35,752	148,853

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2017

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

### 3. OPERATING SEGMENT INFORMATION (Continued)

#### GEOGRAPHICAL INFORMATION

##### (a) Revenue from external customers

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

### GEOGRAPHICAL INFORMATION (Continued)

#### (b) Non-current assets

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

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

### INFORMATION ABOUT A MAJOR CUSTOMER

During the six months ended 30 June 2018, revenue from sales to a major customer of third party accounting for 10% or more of the total net sales of the Group is HK\$ 497,277,000 (During the six months ended 30 June 2017: HK\$ 489,551,000). The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and others segments, including sales to a group of entities which are known to be under common control with this customer. There was no other single customer accounted for 10% or more of the total net sales of the Group during the six months ended 30 June 2018. There was no other single customer accounted for 10% or more of the total net sales of the Group during the six months ended 30 June 2017, except a related party disclosed in note 25 (b).

#### 4. REVENUE AND OTHER INCOME AND GAINS

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

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

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

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 4. REVENUE AND OTHER INCOME AND GAINS (Continued)

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

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

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

## 5. FINANCE INCOME

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

## 6. FINANCE COSTS

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



## 7. PROFIT BEFORE TAX

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 8. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

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

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

## 9. DISTRIBUTIONS MADE AND PROPOSED

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

## 10. EARNINGS PER SHARE

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

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

The calculations of the basic and diluted earnings per share are based on:

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 11. PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2018

	Buildings	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)
<b>Net carrying amount</b>	<b>295,507</b>	<b>436,663</b>	<b>6,525</b>	<b>131,545</b>	<b>75,342</b>	<b>95,161</b>	<b>1,040,743</b>
At 1 January 2018, net of accumulated depreciation	295,507	436,663	6,525	131,545	75,342	95,161	1,040,743
Additions	10,555	34,301	1,083	25,834	20,957	73,387	166,117
Transfers	4,809	35,033	–	172	–	(40,014)	–
Disposals	(313)	(10,368)	–	(595)	(96)	–	(11,372)
Depreciation provided during the period	(16,622)	(60,256)	(1,042)	(27,938)	(17,453)	–	(123,311)
Exchange realignment	(9,484)	(3,579)	(82)	(2,476)	(1,318)	(2,339)	(19,278)
<b>At 30 June 2018, net of accumulated depreciation</b>	<b>284,452</b>	<b>431,794</b>	<b>6,484</b>	<b>126,542</b>	<b>77,432</b>	<b>126,195</b>	<b>1,052,899</b>
At 30 June 2018:							
Cost	588,402	1,013,222	17,765	435,308	146,696	126,195	2,327,588
Accumulated depreciation	(303,950)	(581,428)	(11,281)	(308,766)	(69,264)	–	(1,274,689)
<b>Net carrying amount</b>	<b>284,452</b>	<b>431,794</b>	<b>6,484</b>	<b>126,542</b>	<b>77,432</b>	<b>126,195</b>	<b>1,052,899</b>

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2017

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK\$'000)						
At 31 December 2016 and at 1 January 2017:							
Cost	540,890	812,824	11,209	339,032	78,155	77,672	1,859,782
Accumulated depreciation	(246,777)	(475,246)	(8,028)	(226,355)	(45,182)	—	(1,001,588)
<b>Net carrying amount</b>	<b>294,113</b>	<b>337,578</b>	<b>3,181</b>	<b>112,677</b>	<b>32,973</b>	<b>77,672</b>	<b>858,194</b>
At 1 January 2017, net of accumulated depreciation	294,113	337,578	3,181	112,677	32,973	77,672	858,194
Additions	6,758	91,163	1,418	59,832	10,560	115,200	284,931
Acquisition of subsidiaries	—	1,035	2,563	7,468	39,265	—	50,331
Disposals	(3,103)	(10,182)	(69)	(12,831)	(2,483)	—	(28,668)
Depreciation provided during the year	(27,270)	(98,928)	(1,164)	(57,621)	(10,197)	—	(195,180)
Transfers	8,531	82,019	205	13,504	179	(104,438)	—
Exchange realignment	16,478	33,978	391	8,516	5,045	6,727	71,135
<b>At 31 December 2017, net of accumulated depreciation</b>	<b>295,507</b>	<b>436,663</b>	<b>6,525</b>	<b>131,545</b>	<b>75,342</b>	<b>95,161</b>	<b>1,040,743</b>
At 31 December 2017:							
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)
<b>Net carrying amount</b>	<b>295,507</b>	<b>436,663</b>	<b>6,525</b>	<b>131,545</b>	<b>75,342</b>	<b>95,161</b>	<b>1,040,743</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 12. GOODWILL

	(HK\$'000)
Cost and net carrying amount at 31 December 2016 and 1 January 2017	811,662
Acquisition of subsidiaries	1,907,693
Exchange realignment	69,970
Cost and net carrying amount at 31 December 2017 and 1 January 2018	2,789,325
Exchange realignment	(26,395)
<b>Cost and net carrying amount at 30 June 2018</b>	<b>2,762,930</b>

## 13. OTHER INTANGIBLE ASSETS

30 JUNE 2018

	Trademarks	Computer software	Non-complete 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 amortization	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
<b>Net carrying amount</b>	<b>1,778,526</b>	<b>15,023</b>	<b>2,135</b>	<b>523,942</b>	<b>51,573</b>	<b>2,371,199</b>
At 1 January 2018, net of accumulated amortisation	1,778,526	15,023	2,135	523,942	51,573	2,371,199
Additions	832	2,651	—	11,284	1,103	15,870
Amortisation provided during the period	(1,112)	(2,719)	(813)	(16,442)	(3,399)	(24,485)
Exchange realignment	(23,182)	(829)	(36)	(7,700)	(931)	(32,678)
<b>At 30 June 2018, net of accumulated amortisation</b>	<b>1,755,064</b>	<b>14,126</b>	<b>1,286</b>	<b>511,084</b>	<b>48,346</b>	<b>2,329,906</b>
At 30 June 2018:						
Cost	1,785,291	47,358	7,509	569,651	71,275	2,481,084
Accumulated amortisation	(30,227)	(33,232)	(6,223)	(58,567)	(22,929)	(151,178)
<b>Net carrying amount</b>	<b>1,755,064</b>	<b>14,126</b>	<b>1,286</b>	<b>511,084</b>	<b>48,346</b>	<b>2,329,906</b>

## 13. OTHER INTANGIBLE ASSETS (Continued)

31 DECEMBER 2017

	Trademarks	Computer software	Non-competitive agreement	Customer relationship	Patents	Total
	(HK\$'000)					
At 31 December 2016 and at 1 January 2017:						
Cost	497,014	36,791	5,902	140,871	58,328	738,906
Accumulated amortisation	(25,575)	(18,814)	(3,443)	(22,139)	(13,069)	(83,040)
<b>Net carrying amount</b>	<b>471,439</b>	<b>17,977</b>	<b>2,459</b>	<b>118,732</b>	<b>45,259</b>	<b>655,866</b>
At 1 January 2017, net of accumulated amortisation	471,439	17,977	2,459	118,732	45,259	655,866
Additions	2,368	2,274	—	—	6,953	11,595
Acquisition of subsidiaries	1,231,637	665	733	405,453	—	1,638,488
Amortisation provided during the year	(2,312)	(9,849)	(1,431)	(12,953)	(5,266)	(31,811)
Exchange realignment	75,394	3,956	374	12,710	4,627	97,061
<b>At 31 December 2017, net of accumulated depreciation</b>	<b>1,778,526</b>	<b>15,023</b>	<b>2,135</b>	<b>523,942</b>	<b>51,573</b>	<b>2,371,199</b>
At 31 December 2017:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
<b>Net carrying amount</b>	<b>1,778,526</b>	<b>15,023</b>	<b>2,135</b>	<b>523,942</b>	<b>51,573</b>	<b>2,371,199</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 14. INVENTORIES

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

## 15. TRADE AND NOTES RECEIVABLES

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

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.



## 15. 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 2018	As at 31 December 2017
	(HK\$'000)	
	(Unaudited)	(Audited)
Within 3 months	1,055,360	1,020,758
3 to 6 months	34,430	138,752
6 months to 1 year	88,681	5,614
Over 1 year	12,512	334
	<b>1,190,983</b>	<b>1,165,458</b>

## 16. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

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.

## 18. INTEREST-BEARING BANK LOANS AND OTHER BORROWING

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

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

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

- (i) The pledge of shares of certain Group's subsidiaries;
- (ii) A standby letter of credit from certain banks issued by a subsidiary of the Group;
- (iii) The guarantee from the Company.

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### *Forward currency contracts – cash flow hedges*

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

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 20. SHARE CAPITAL

	Number of shares in issue	Issued capital
	('000)	(HK\$'000)
Issued and fully paid:		
At 1 January 2018	1,666,251	16,662
Share options exercised (note(a))	1,772	18
<b>At 30 June 2018</b>	<b>1,668,023</b>	<b>16,680</b>

Note (a): The subscription rights attaching to 6,000 and 1,766,000 share options were exercised at the subscription prices of HK\$2.12 per share and HK\$3.58 per share respectively, resulting in the issue of 1,772,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$18,000.

Details of the Group's share option scheme and the share options issued under the scheme are included in note 21 to the financial statements.

## 21. 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.

## 21. SHARE OPTION SCHEME (Continued)

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.

The following share options were outstanding under the Scheme during the six months ended 30 June 2018:

	Weighted average exercise price	Number of options
	HK\$ per share	'000
At 1 January 2017	3.420	74,960
Granted during the year	3.880	4,500
Forfeited during the year	3.708	(13,488)
Exercised during the year	2.466	(15,022)
At 31 December 2017, 1 January 2018	3.665	50,950
Granted during the period	4.600	112,300
Forfeited during the period	3.575	(1,214)
Exercised during the period	3.731	(1,772)
<b>At 30 June 2018</b>	<b>4.320</b>	<b>160,264</b>

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 (Six months ended 30 June 2017: HK\$3.60 per share).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 21. 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 2018

Number of options '000	Exercise price HK\$ per share	Exercise period
7,594	3.58	29 September 2017 to 28 September 2024
10,060	3.58	29 September 2018 to 28 September 2024
9,360	3.58	29 September 2019 to 28 September 2024
5,883	3.75	7 October 2018 to 6 October 2028
5,883	3.75	7 October 2019 to 6 October 2028
4,684	3.75	7 October 2020 to 6 October 2028
1,500	3.88	28 August 2020 to 27 August 2027
1,500	3.88	28 August 2021 to 27 August 2027
1,500	3.88	28 August 2022 to 27 August 2027
20,160	4.54	27 September 2020 to 27 March 2028
30,240	4.54	27 September 2021 to 27 March 2028
50,400	4.54	27 September 2022 to 27 March 2028
2,300	5.122	28 May 2021 to 27 May 2028
3,450	5.122	28 May 2022 to 27 May 2028
5,750	5.122	28 May 2023 to 27 May 2028
<b>160,264</b>		



## 21. SHARE OPTION SCHEME (Continued)

### 31 DECEMBER 2017

Number of options '000	Exercise price HK\$ per share	Exercise period
20	2.12	3 January 2013 to 2 January 2018
9,360	3.58	29 September 2017 to 28 September 2024
10,060	3.58	29 September 2018 to 28 September 2024
9,360	3.58	29 September 2019 to 28 September 2024
5,883	3.75	7 October 2018 to 6 October 2025
5,883	3.75	7 October 2019 to 6 October 2025
5,884	3.75	7 October 2020 to 6 October 2025
1,500	3.88	28 August 2020 to 27 August 2027
1,500	3.88	28 August 2021 to 27 August 2027
1,500	3.88	28 August 2022 to 27 August 2027
<b>50,950</b>		

The Group recognised a share option expense of HK\$ 10,301,000 during the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$ 8,047,000).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 21. SHARE OPTION SCHEME (Continued)

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 27 March 2018	Share options granted on 28 May 2018
Dividend yield (%)	1.50	1.50
Spot stock price (HK\$ per share)	4.54	4.78
Historical volatility (%)	37.90	37.90
Risk-free interest rate (%)	2.03	2.25
Expected life of options (year)	10	10
Weighted average share price (HK\$ per share)	4.757	4.757

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

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

The 1,772,000 share options exercised during the period 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 160,264,000 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 160,264,000 additional ordinary shares of the Company and additional share capital of HK\$1,602,640 and share premium of HK\$ 693,995,260 (before issue expenses).

At the date of approval of these financial statements, the Company had 160,264,000 share options outstanding under the Scheme, which represented approximately 9.61% of the Company's shares in issue as at that date.

## 22. 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 2018

	Financial assets at fair value through profit or loss	Loans and receivables	Total
	(HK\$'000)		
	(Unaudited)		
Trade and notes receivables	–	1,197,743	1,197,743
Financial assets included in prepayments and other receivables	–	279,887	279,887
Derivative financial instruments	35,439	–	35,439
Other long-term assets	5,130	3,245	8,375
Pledged time deposits	–	16,806	16,806
Cash and cash equivalents	–	831,061	831,061
	<b>40,569</b>	<b>2,328,742</b>	<b>2,369,311</b>

As at 31 December 2017

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	(HK\$'000)			
	(Audited)			
Trade and notes receivables	–	–	1,171,738	1,171,738
Financial assets included in prepayments and other receivables	–	–	232,285	232,285
Available-for-sale investments	–	138,088	–	138,088
Derivative financial instruments	22,250	–	–	22,250
Other long-term assets	4,160	–	3,064	7,224
Pledged time deposits	–	–	15,370	15,370
Time deposits	–	–	84,054	84,054
Cash and cash equivalents	–	–	952,153	952,153
	<b>26,410</b>	<b>138,088</b>	<b>2,458,664</b>	<b>2,623,162</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 22. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	(HK\$'000) (Unaudited)		
<b>As at 30 June 2018</b>			
Financial liabilities included in other payables, advances from customers and accruals	–	193,814	193,814
Trade and bills payables	–	1,190,158	1,190,158
Interest-bearing bank loans and other borrowings	–	2,624,508	2,624,508
Derivative financial instruments	6,575	–	6,575
Other liabilities	–	12,158	12,158
Due to related parties	–	3,893	3,893
	<b>6,575</b>	<b>4,024,531</b>	<b>4,031,106</b>
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	(HK\$'000) (Audited)		
<b>As at 31 December 2017</b>			
Financial liabilities included in other payables, advances from customers and accruals	–	190,419	190,419
Trade and bills payables	–	1,312,573	1,312,573
Interest-bearing bank loans and other borrowings	–	2,736,799	2,736,799
Derivative financial instruments	4,408	–	4,408
Other liabilities	–	10,460	10,460
Due to related parties	–	99,143	99,143
	<b>4,408</b>	<b>4,349,394</b>	<b>4,353,802</b>

## 23. 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:

30 June 2018

	Carrying amount	Fair value
	(HK\$'000)	
	(Unaudited)	
Derivative financial instruments	35,439	35,439
Other long-term assets – call options over non-controlling interests	5,130	5,130
	<b>40,569</b>	<b>40,569</b>

31 December 2017

	Carrying amount	Fair value
	(HK\$'000)	
	(Audited)	
Derivative financial instruments	22,250	22,250
Other long-term assets – call options over non-controlling interests	4,160	4,160
Available-for-sale investments	138,088	138,088
	<b>164,498</b>	<b>164,498</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### FINANCIAL LIABILITIES:

30 June 2018

	Carrying amount	Fair value
	(HK\$'000) (Unaudited)	
Other non-current liabilities – put options over non-controlling interests	12,158	12,158
Derivative financial instruments	6,575	6,575
Interest-bearing bank loans and other borrowing	2,624,508	2,624,508
<b>Total</b>	<b>2,643,241</b>	<b>2,643,241</b>

31 December 2017

	Carrying amount	Fair value
	(HK\$'000) (Audited)	
Derivative financial instruments	4,408	4,408
Other non-current liabilities – put options over non-controlling interests	10,460	10,460
Interest-bearing bank loans and other borrowing	2,736,799	2,736,799
<b>Total</b>	<b>2,751,667</b>	<b>2,751,667</b>

### 23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, other receivables, time deposits, pledged time deposits, current interest-bearing bank loans, trade and notes payables, other liabilities, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current interest-bearing bank loans of the Group approximates to their fair value because the loans have a floating interest rate.

The finance manager of each subsidiary of the Group is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The Group finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group enters into 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 2018, 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 23. 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 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 options over non-controlling interests	5,130	–	–	5,130
Derivative financial instruments	35,439	–	35,439	–
	<b>40,569</b>	<b>–</b>	<b>35,439</b>	<b>5,130</b>

	31 December 2017	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
(HK\$'000)				
Financial assets at fair value through profit or loss				
– Call options over non-controlling Interests	4,160	–	–	4,160
Available-for-sale investments	138,088	–	–	138,088
Derivative financial instruments	22,250	–	22,250	–
	<b>164,498</b>	<b>–</b>	<b>22,250</b>	<b>142,248</b>



## 23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### FAIR VALUE HIERARCHY (Continued)

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

	30 June 2018	31 December 2017
	(HK\$'000)	
At 1 January	142,248	5,348
Remeasurement recognised in other income and gains	—	1,747
Purchases	160,476	390,033
Disposals	(300,422)	(257,330)
Exchange realignment	2,828	2,450
	<b>5,130</b>	<b>142,248</b>

Liabilities for which fair values are disclosed:

	30 June 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 options over non-controlling interests	12,158	—	—	12,158
Interest-bearing bank loans and other borrowing	2,624,508	—	2,624,508	—
Derivative financial instruments	6,575	—	6,575	—
	<b>2,643,241</b>	<b>—</b>	<b>2,631,083</b>	<b>12,158</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed: (Continued)

	31 December 2017	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
		(HK\$'000)		
Put options over non-controlling interests	10,460	–	–	10,460
Derivative financial instruments	4,408	–	4,408	–
Interest-bearing bank loans and other borrowing	2,736,799	–	2,736,799	–
	<b>2,751,667</b>	<b>–</b>	<b>2,741,207</b>	<b>10,460</b>

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

	30 June 2018	31 December 2017
	(HK\$'000)	
At 1 January	10,460	8,893
Remeasurement recognised in other income and gains	–	241
Purchases	1,934	–
Exchange realignment	(236)	1,326
	<b>12,158</b>	<b>10,460</b>

During the period ended 30 June 2018, 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.

## 24. COMMITMENTS

The Group had the following capital commitments as at 30 June 2018 and 31 December 2017:

	As at 30 June 2018	As at 31 December 2017
	(HK\$'000)	
	(Unaudited)	(Audited)
Contracted, but not provided for in respect of the acquisition of:		
<b>Property, plant and equipment</b>	<b>39,795</b>	<b>11,226</b>

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

### (A) NAME AND RELATIONSHIP

<b>Name of related party</b>	<b>Relationship with the Group</b>
Mr. Song Zhenghuan (“Mr. Song”)	Director and one of the ultimate shareholders of the Company
Ms. Fu Jingqiu (“Ms. Fu”)	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 Ms. Fu
Goodbaby Group Co., Ltd. (“GGCL”)	Significantly influenced by Mr. Song
Goodbaby Group Ping Xiang Co., Ltd. (“GGPX”)	Controlled by GGCL
Goodbaby China Holdings Limited (“CAGB”)	Significantly influenced by GGCL
Goodbaby China Commercial Co., Ltd. (“GCCL”)	Controlled by CAGB
Shanghai Goodbaby Child Products Co., Ltd. (“SGCP”)	Controlled by Majestic Sino Limited (“MJSL”)
Kunshan Mommy Best Technology Co., Ltd. (“MAMA”)	Joint venture
Goodbaby Mechatronics s.r.o. (“GBMS”)	Joint venture

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 25. 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	
	2018	2017
	(HK\$'000)	
	(Unaudited)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	13,184	488,794
Purchases of goods from a related party (note (a))		
GCCL#	–	317
Rental expense to related parties (note (b))		
GGPX#	6,508	5,765
GGCL#	429	378
	6,937	6,143
Service expenses to a joint venture (note (c))		
GBMS	1,147	–
Expenses paid on behalf of related parties (note (d))		
GCCL#	248	345

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 expense to a related party was made according to the prices and terms offered by the related party.

Note (c): The service expense to a joint venture was made according to the prices and terms mutually agreed between the Group and the joint venture.

Note (d): Expenses paid on behalf of related parties 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.

## 25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (C) OUTSTANDING BALANCES WITH RELATED PARTIES

	As at 30 June 2018	As at 31 December 2017
	(HK\$'000)	
	(Unaudited)	(Audited)
Amounts due from a related party:		
GCCL	632	—
	<b>632</b>	<b>—</b>

	As at 30 June 2018	As at 31 December 2017
	(HK\$'000)	
	(Unaudited)	(Audited)
Amounts due to related parties:		
GCHL	2,965	18,805
GBMS	928	—
CAGB	—	6,605
GCCL	—	73,733
	<b>3,893</b>	<b>99,143</b>

In June 2017, Oasis Dragon Group acquired 25% equity interest in Shanghai Goodbaby Fashion Co., Ltd. (“SHFS”) from GCHL. The acquisition consideration amounting to HKD2,965,000 has not been fully paid yet. Management presented that the outstanding amount will be settled in the 2nd half year of 2018.

The amounts due from related parties are 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 2018

## 25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	Six months ended 30 June	
	2018	2017
	(HK\$'000)	
	(Unaudited)	
Short term employee benefits	22,153	19,471
Equity-settled share option expense	3,495	3,370
Post-employment benefits	522	439
<b>Total compensation paid to key management personnel</b>	<b>26,170</b>	<b>23,280</b>

## 26. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 28 August 2018.

