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# 2010

Goodbaby International Holdings Limited

Stock Code：1086

ANNUAL REPORT

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Song Zhenghuan
*(Chairman & Chief Executive Officer)*
Mr. Wang Haiye
*(Vice President & Chief Operating Officer)*

### Non-Executive Directors

Mr. Christopher Marcus Gradel
Ms. Chiang Yun

### Independent Non-Executive Directors

Mr. Iain Ferguson Bruce
Mr. Long Yongtu
Mr. Shi Xiaoguang

## HEAD OFFICE

Liji Road, Kunshan Development District
Jiangsu Province, 215331
PRC

## REMUNERATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

## AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
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Hong Kong

## AUDIT COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

## COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

## NOMINATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

## PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## COMPANY SECRETARY

Ms. Pau Lai Mei

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Pau Lai Mei

## PRINCIPAL BANKER

Bank of China, Kunshan Branch

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
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Grand Cayman
KY1-1111
Cayman Islands

## LEGAL ADVISOR

### As to Hong Kong law

Sidley Austin

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2001, 20th Floor
Two Chinachem Exchange Square
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Hong Kong

## WEBSITE

www.gbinternational.com.hk

## STOCK CODE

1086

# COMPANY OVERVIEW

Goodbaby International Holdings Limited (the "Company" or "our Company" and, together with its subsidiaries, "Goodbaby", "we," "us," "our," the "Group" or "our Group") is an international durable juvenile products company headquartered in China. We are mainly engaged in the research and development, design, manufacture, marketing and sale of strollers, children's car safety seats, cribs, bicycles and tricycles, and other durable juvenile products.

Over the years, we have established a strong leading position in the global durable juvenile products industry with an excellent and efficient business model. During the past decades we have achieved in establishing well-known brands in China and globally, an internationally leading research and development ("R&D") system in the industry, an extensive and effective global distribution network, a stable and well-developed manufacturing and supply chain management system, and a professional and ambitious management team with visions and passion. In addition, as one of the earliest established durable juvenile products companies in China, we have first-mover advantages in the Chinese market, which creates huge entry barriers to new entrances.

Since the establishment of our group, we have chosen the development path of continuous innovation and identified the business strategies of independent R&D. Since the early 1990s, we have started the global strategic approach from the establishment of R&D institutions to the expansion into R&D centers, aiming to build a comprehensive global R&D system. As at 31 December 2010, we have established five R&D centers with more than 330 professional R&D and design engineering staff, forming a creative R&D system based on forefront market research. The R&D system, through innovation, creativity and design, solidifies our strong R&D capacity and continuously consolidates and strengthens our leading position in the global durable juvenile products industry. We have obtained a total of 4,465 patents in China and overseas, well ahead of our industry peers.

In China, the Group principally designs, manufactures and sells its products under its self-owned brands, including "gb" and "Happy Dino", which enjoy wide recognition and reputation as well as leading market share. As at 31 December 2010, we sold our products through our distribution network which covered 498 distributors, 1,687 department stores and supermarkets, and 5,785 maternity and childcare specialty stores. In the overseas markets, we establish strategic partnerships with local distributors or owners of world famous brands, and sell the products under both our own brands and third-party brands. As at 31 December 2010, we have established cooperative relationships with 32 international distributors and 82 brand owners in the overseas markets.

Our business is backed by efficient and stable production control and supply chain management system. We effectively maintain the supply chain by setting up standards for procurement, production and safety control, carefully managing the production facilities in Kunshan and Ningbo, selectively outsourcing to reliable third parties, and proactively monitoring related logistics systems. As at 31 December 2010, our production and supporting facilities in Kunshan and Ningbo in China have a total area of 329,504.07 square meters. We have state-approved laboratories in China, advanced testing equipment and technologies as well as top engineering and technical professionals in the global durable juvenile product industry, effectively ensuring the top quality of our products and technologies.

Since inception of our Group, we have been adhering to the corporate philosophy of "Caring for children, services to families and social returns", striving to continuously provide innovative, safe, stylish and practical products to children around the world. In 2010, we took the lead to introduce the green development concept of "Cradle to Cradle" in the global durable juvenile product industry, making strategic planning for our longer-term future and assuming our social responsibility as an industry leader. We are committed to incorporating the green concept into our development and operation, and to provide healthy and friendly products to parents, children and our environment, creating a better living environment and a clean Earth with no pollution to children.

# CHAIRMAN'S STATEMENT

**Mr Song Zhenghuan**
*Chairman*

**Dear Shareholders and Friends,**

**On behalf of the board (the "Board") of directors (the "Directors") and the management, I am honored to present to you the report on the development and operating results of Goodbaby International Holdings Limited for 2010, and extend our gratitude for your support.**

**In 2010, despite a challenging year, the Group managed to achieve our target results as well as many other successes.**

For continuing operations[1] in the year ended 31 December 2010, the Group's revenue amounted to HK$3,721.9 million, representing an increase of 22.7% over 2009. Gross profit amounted to HK$742.6 million, representing a growth of 30.5% over 2009. Net profit from continuing operations amounted to HK$203.2 million, up 23.6% from 2009. Excluding the initial public offering expenses incurred during the year, net profit amounted to HK$235.5 million, representing an increase of 43.2% over 2009.

## THE NEW TRADEMARK HELPED PROMOTE OUR INTERNATIONAL IMAGE

In line with our global strategy, the Group launched the new brand logo – "gb" in 2010 and reengineered the core value of "Safe, Durable, Simple, Stylish and Caring" of our Goodbaby brand, upgrading "Goodbaby" to an international brand. Our rebranding strategy attracted strong attention and was well received by the market.

[1] *All references to continuing operations in this annual report refer to our operations which are principally in the design, research and development, manufacture, marketing and sale of strollers, children's car safety seats, cribs, bicycles and tricycles, and other durable juvenile products.*

Goodbaby was honored to become the official sponsor of strollers for the 2010 Shanghai World Expo. Thousands of "gb" brand strollers wandered in the World Expo Park, creating a unique scenery for the World Expo and showing the new image of Goodbaby in front of visitors from all over the world.

In overseas trade fairs such as Hong Kong and Japan, the new logo of Goodbaby was highly recognized by our international partners. Upon the launch of the new logo in China, Japan, South Americas and Russia, it was well-received by our customers and we were very pleased to see the significantly stronger brand image of Goodbaby.

## THE FIFTH R&D CENTRE IN HONG KONG HELPED IMPROVE OUR GLOBALIZED R&D SYSTEM

In July 2010, Goodbaby's Hong Kong R&D center was officially opened and marked our fifth R&D center of the Group after those in Kunshan, China, Boston, U.S., Utrecht, the Netherlands, and Tokyo, Japan. Goodbaby's international R&D system has become more comprehensive and encompassed the full scope of R&D capabilities such as market research, concept creation, product innovation and fashion design.

2010 marked a year of extensive innovation of Goodbaby. The stationary activity play center developed by the R&D center in Hong Kong enriched Goodbaby's product line; the electric stroller developed by the R&D center in the Netherlands won the German Red Dot Design Award – the "Oscar Award" in the design industry; the car seat developed by the R&D center in the U.S. made a number of technology breakthroughs; the y-type stroller developed by the R&D center in Japan introduced an unconventional design to the industry; the infant bouncer developed by the R&D center in Kunshan pioneered intelligent nursery products. During the year, a total of 581 patents was invented and applied by the five R&D centers, which played a crucial role in strengthening our independent R&D capacity and Goodbaby's core competency in the competitive durable juvenile products industry landscape.

## IN-DEPTH DISTRIBUTION WAS INITIATED TO ACTIVELY EXPLORE CHINA'S MARKET

China's maternity and childcare market is undergoing a significant change with the advent of individual maternity and childcare specialty stores and emergence of highly diversified competition. In order to seize the business opportunities brought by such change and secure our market leadership, the Group launched an important strategic initiative in building sales channels in China – the in-depth distribution management. The in-depth distribution channel management means a distribution approach of extensive coverage and deep penetration of brands and products by visits and management of target retail stores with targeted personnel, locations, scheduled times and frequencies. This will help ensure the orderly and regulated management of sales channels and realize the absolute leading advantage of Goodbaby in China market.

As at the end of 2010, the Group's in-depth distribution management system expanded to four provinces, namely Shandong, Henan, Hunan and Guangdong, and Shanghai. A database of target stores has been established through selecting and screening of maternity and childcare specialty stores and it will be expanded to cover third and fourth tier cities as well as rural areas. The in-depth distribution management system is being developed to cover the entire nation and we believe that it will help to drive the Group's sales in China, expand our market share and solidify and further develop the leading position of Goodbaby.

## CHINA QUALITY AWARD RECOGNIZED OUR MATURING PERFORMANCE EXCELLENCE MANAGEMENT APPROACH

In October 2010, Goodbaby received the "China Quality Award", a national award which shows the recognition of our matured operation management and advanced quality standards since the launch of our Performance Excellence Management Approach in 2006. Our efforts in market-orientation and strategic management, construction of management system, and our "in search of excellence" principle were well recognized.

2010 also marked the year of notable breakthroughs made in the product standard studies and product testing technologies. The completion of our world-leading advanced car seat shock testing laboratory and the upgrade of our forensic toxicology laboratory gained Goodbaby more recognition by international leading institutes in addition to its existing nationally accredited laboratory qualifications. On 28 October 2010, the chairman of U.S. Consumer Product Safety Commission (CPSC) invited us to join CPSC's stroller safety standard revision exercise in the United States after their visit to the Group led by the Chairman of CPSC, demonstrating the leading position of Goodbaby in the industry.

## PROMOTION OF "CRADLE TO CRADLE" MODEL FOR SUSTAINABILITY

As a corporate citizen and market leader, Goodbaby never forgets its social responsibility while creating economic efficiency. In 2010, Goodbaby officially entered into cooperation with renowned scientist Michael Braungart, co-founder of the "Cradle to Cradle" ("C2C") model, to champion the C2C development model in the juvenile product industry in the world.

Goodbaby endorsed its corporate mission of "Revolutionize children's living environment, Improve the quality of life for children" since its establishment and commenced the study of the C2C concept three years ago. On 27 May 2010, Goodbaby's C2C project won the "Most Innovative Project Award" during the VIP Week of Holland Knowledge Inc held at the Dutch pavilion in the 2010 Shanghai World Expo.

The implementation of the C2C concept in the durable juvenile product industry will pioneer a new operating model for the sustainable development of the industry.

## A NEW CHAPTER OF THE COMPANY

On 24 November 2010, the Company was successfully listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange") and received immense support from the investor public. This demonstrated our recognition by the society of the dream that has been embraced by Goodbaby over more than 20 years. My colleagues and I are deeply honored and encouraged but in the meantime, we are fully aware of our responsibility.

2011 will be a new starting point for Goodbaby in our history and it will also be an important year for us to move towards a higher goal. As a market leader in the durable juvenile product industry based in China, we are experiencing two "China opportunities" – one is the enormous market opportunity being posed by the rapid growth of China's domestic demand, and the other is the strategic opportunity of striding in the global market under the evolution from "Made in China" to "Created in China". We will continue to embrace such opportunities with our philosophy of continual innovation, quality and enterprise and move forward with passion and ultimately becoming a world-class enterprise for greater achievements and results so as to generate excellent returns to our shareholders.

Again, I would like to extend my appreciation to all shareholders and our friends for your relentless support.

**Goodbaby International Holdings Limited**
**Song Zhenghuan**
*Chairman*

18 March 2011


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# MANAGEMENT DISCUSSION AND ANALYSIS

**In 2010, we steadily increased our market share through strong capabilities in product innovation, and continued to implement diversification strategy by penetrating into new markets and introducing new products.**

## OVERVIEW

2010 was a challenging year. We faced the mixture of weaker demand from overseas markets and accelerating pace of growth and evolution in China market. Although gradually recovering from financial crisis, our overseas markets, especially developed markets, remained sluggish in 2010 and experienced contraction in the second half of 2010 as a result of the European sovereign debt crisis. On the other hand, China market kept strong growth momentum with ongoing distribution channel transformation. Traditional channels including department stores and hypermarkets grew at a relative slower rate while the emergence of maternity and childcare specialty store channel grew at a higher speed.

Despite a volatile year, 2010 remained as a successful year for the Group on multiple fronts:

- In April 2010, we were honored to become the special sponsor of children's strollers for


the Shanghai World Expo and to provide high quality products to visitors from all over the world. Our vision of innovation and product excellence resonated well with the theme of the Shanghai World Expo. The sponsorship with the Shanghai World Expo is a demonstration of Group's industry leadership and the brand´s international recognition.

- In May 2010, our "Cradle to Cradle" project, which we had developed for years, was granted the "Most Innovative Project" in the Holland Knowledge Inc. VIP Days（知識公司貴賓週）held at the Netherlands Pavilion during the Shanghai World Expo.

- In October 2010, we were honored with the "China Quality Award"（全國質量獎）- a national award for enterprises in the PRC, which represented a high recognition and appreciation for our outstanding achievement in building "Excellent Performance Management"（卓越績效管理）system.

- One of our 2010 products won the "Red Dot Design Award", which is regarded as "the Oscars" of the design industry, evidencing that our strength in research and development has been highly recognized by international associations.

For the year ended 31 December 2010, the Company recorded revenue of approximately HK$3,721.9 million, representing an increase of 22.7% from 2009. Gross profit was approximately HK$742.6 million, representing an increase of 30.5% from 2009. Profit reached approximately HK$203.2 million, up 23.6% over 2009; or HK$235.5 million excluding related expenses of the Company's initial public offering on the Stock Exchange, an increase of 43.2% over the previous year.

In 2010, we steadily increased our market share through strong capabilities in product innovation, and continued to implement diversification strategy by penetrating into new markets and introducing new products. With regard to the distribution channel transformation in China market, we expanded our footprint in the maternity and childcare specialty stores channel by holding provincial procurement exhibitions and strategically establishing in-depth distribution management system. In order to manage the increase in raw materials prices, labour costs as well as the Renminbi appreciation, we continuously improved our operational efficiency and developed further subcontracting, while accelerating products innovation, so as to effectively control costs.

Focusing on the consolidation of the Company's leading position in the industry, we have made important headways under our long-term strategic plan. We established Goodbaby Hong Kong R&D Center, our fifth global research and development center. We also launched the new logo "gb" as part of our international rebranding plan. By cooperating with Professor Michael Braungart, the founder of "Cradle to Cradle" idea, we were the first to carry out the green development model of "Cradle to Cradle" in the global durable juvenile products industry. In addition, the successful initial public offering on the Stock Exchange on 24 November 2010 provided us with a fully-integrated financial platform to support our future development.

We believe market conditions overseas will continue to be uncertain, however we will continue to execute our established strategies as mentioned in the Company's prospectus dated 11 November 2010 and endeavor to achieve higher growth and better operating results.

# FINANCIAL REVIEW — CONTINUING OPERATIONS

## Revenue

Our total revenue increased by 22.7% from HK$3,032.2 million for the year ended 31 December 2009 to HK$3,721.9 million for the year ended 31 December 2010. This increase is due to the Group's diversification strategy in markets and products.

## Revenue by Geographical Region

The table below sets out our revenue by geographical region for the periods indicated.

| | For the year ended December 31, 2010 | | 2009 | | Growth analysis 2010 vs 2009 |
|---|---|---|---|---|---|
| | Sales *(HK$ million)* | % of sales | Sales *(HK$ million)* | % of sales | Growth |
| Our European Market[1] | 1,111.0 | 29.9% | 928.4 | 30.6% | 19.7% |
| North America[1] | 1,287.6 | 34.6% | 1,000.2 | 33.0% | 28.7% |
| China | 830.4 | 22.3% | 730.1 | 24.1% | 13.7% |
| Other Overseas Markets[1] | 492.9 | 13.2% | 373.5 | 12.3% | 32.0% |
| Total | 3,721.9 | 100.0% | 3,032.2 | 100.0% | 22.7% |

1. *For purposes of this annual report, references to "our European market" mean countries in Europe to which we sell our products, which were Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the U.K.. "North America" means the United States and Canada, "Other overseas markets" mean overseas markets other than North America and our European market, including markets such as South America, Southeast Asia, the Middle East, Japan, Russia and India.*

Revenue from our European market increased by 19.7% to HK$1,111.0 million for the year ended 31 December 2010 from HK$928.4 million for the year ended 31 December 2009. This increase was attributable to the overall increase in sales of all product lines.

Revenue from North America increased by 28.7% to HK$1,287.6 million for the year ended 31 December 2010 from HK$1,000.2 million for the year ended 31 December 2009. This increase was primarily attributable to the increase in sales in other durable juvenile products and car seats and accessories.

Revenue from China increased by 13.7% to HK$830.4 million for the year ended 31 December 2010 from HK$730.1 million for the year ended 31 December 2009. This increase was primarily attributable to the increase in sales in strollers and accessories and ride-ons.

Revenue from other overseas markets increased by 32.0% to HK$492.9 million for the year ended 31 December 2010 from HK$373.5 million for the year ended 31 December 2009. This increase was primarily attributable to the overall increase in sales of all product lines.

## Revenue by Products

The table below sets out our revenue by products line for the periods indicated.

| | For the year ended December 31, 2010 | | 2009 | | Growth analysis 2010 vs 2009 |
|---|---|---|---|---|---|
| | Sales *(HK$ million)* | % of sales | Sales *(HK$ million)* | % of sales | Growth |
| Strollers and accessories | 1,825.3 | 49.1% | 1,609.3 | 53.1% | 13.4% |
| Car seats and accessories | 473.6 | 12.7% | 375.8 | 12.4% | 26.0% |
| Other durable juvenile products | 1,423.0 | 38.2% | 1,047.1 | 34.5% | 35.9% |
| Total | 3,721.9 | 100.0% | 3,032.2 | 100.0% | 22.7% |

Revenue from strollers and accessories increased by 13.4% to HK$1,825.3 million for the year ended 31 December 2010 from HK$1,609.3 million for the year ended 31 December 2009. This increase was attributable to the overall increase in all geographical regions. In particular, revenue from other overseas markets increased by 34.7% and revenue from China increased by 17.7%.

Revenue from car seats and accessories increased by 26.0% to HK$473.6 million for the year ended 31 December 2010 from HK$375.8 million for the year ended 31 December 2009. This increase was attributable to the overall increase in all geographical regions. In particular, revenue from North America increased by 36.7%.

Revenue from other durable juvenile products increased by 35.9% to HK$1,423.0 million for the year ended 31 December 2010 from HK1,047.1 million for the year ended 31 December 2009. This increase was attributable to the overall increase in all geographical regions. In particular, revenue from North America increased by 66.3%.

## Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 20.9% from HK$2,463.4 million for the year ended 31 December 2009 to HK$2,979.3 million for the year ended 31 December 2010. This increase was primarily due to the increased sales and production driven by higher demand for our products, as well as the increase in our labor costs. Our labor costs increased as a percentage of our cost of sales from 9.6% for the year ended 31 December 2009 to 11.6% for the year ended 31 December 2010, primarily because we increased the number of our employees engaged in production and incurred additional wage expenses due to wage increases in China. As a percentage of sales, our cost of sales decreased from 81.2% for the year ended 31 December 2009 to 80.0% for the year ended 31 December 2010. Although there was an increase in our labor costs, this increase was partially offset by our savings in raw materials and overhead costs, which was primarily driven by improved efficiencies in our manufacturing processes and our supply chain management system.

As a result of the foregoing, our gross profit increased by 30.5% from HK$568.9 million for the year ended 31 December 2009 to HK$742.6 million for the same period in 2010. Our gross profit margin increased from 18.8% for the year ended 31 December 2009 to 20.0% for the same period in 2010, primarily as a result of the following:

## Overseas markets

For our overseas markets, our gross profit margin for strollers and accessories and car seats and accessories remained relatively stable for the year ended 31 December 2009 and 2010. Our gross profit margin for other durable juvenile products increased from 10.9% for the year ended 31 December 2009 to 13.0% for the year ended 31 December 2010, primarily attributable to our cost savings from the production of these products, due to our improved efficiency of management and control of the production facilities.

## China

In China, our gross profit margin for strollers and accessories increased from 24.8% for the year ended 31 December 2009 to 30.2% for the year ended 31 December 2010. The gross profit margin for bicycles, tricycles and e-cars increased from 15.6% for the year ended 31 December 2009 to 19.3% for the year ended 31 December 2010. Our gross profit margin for the other durable juvenile products increased from 14.9% for the year ended 31 December 2009 to 22.2% for the year ended 31 December 2010. The increase in gross profit margin for all of our products, was primarily attributable to higher selling prices of our products as well as our cost savings that we derived from our selective outsourcing of production of our products.

## Other Income

Our other income increased by 31.1% from HK$25.1 million for the year ended 31 December 2009 to HK$32.9 million for the year ended 31 December 2010. Our other income was higher in the year ended 31 December 2010 due to an increase in the gain on sales of raw materials of HK$3.7 million and an increase in compensation income of HK$2.0 million, which represented compensation received from our 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.

## Selling and distribution costs

Our selling and distribution costs primarily consist of promotion, salary and transportation.

Our selling and distribution costs increased by 36.6% to HK$246.0 million for the year ended 31 December 2010 from HK$180.1 million for the year ended 31 December 2009. The increase in our selling and distribution costs was primarily as a result of: (i) an increase of HK$21.1 million in transportation expenses, which was primarily attributable to an increase in sales for the year ended 31 December 2010 as well as an increase in the transportation charges which was primarily due to higher terminal handling charges; (ii) an increase of HK$18.8 million of salary expenses, which was primarily due to wage increases in China as well as additional employees engaged for in-depth distribution management; and (iii) an increase in promotion expenses of HK$23.2 million. As a percentage of sales, selling and distribution costs increased to 6.6% for the year ended 31 December 2010 from 5.9% for the year ended 31 December 2009.

## Administrative Expenses

Our administrative expenses primarily consist of salary, research and development, and professional expenses.

Our administrative expenses increased from HK$176.0 million for the year ended 31 December 2009 to HK$245.5 million for the year ended 31 December 2010. The increase is primarily a result of: (i) an increase of professional expenses of HK$27.8 million, mainly attributable to expenses in connection with the initial public offering of the Company; (ii) an increase in market research and products research and development expenses of HK$24.1 million; and (iii) an increase of salary expenses of HK$9.0 million, mainly attributable to the wage increases in China.

## Other Expenses

Our other expenses for the year ended 31 December 2010 is HK$20.6 million while HK$20.0 million is for the same period in 2009.

## Operating profit

Our operating profit increased by 20.9% to HK$263.3 million for the year ended 31 December 2010 from HK$217.8 million for the year ended 31 December 2009. The increase in our operating profit was primarily as a result of the factors described above.

## Finance income

Our finance income decreased by 14.3% to HK$1.2 million for the year ended 31 December 2010 from HK$1.4 million for the year ended 31 December 2009.

## Finance Cost

Our finance costs increased by 27.1% to HK$18.3 million for the year ended 31 December 2010 from HK$14.4 million for the year ended 31 December 2009. This increase was primarily due to more bank loans utilized during the year.

## Profit Before Tax

As a result of the foregoing, our profit before tax from our continuing operations (representing the sum of gross profit, other income, administrative expenses, selling and distribution costs, other expenses, finance costs and finance income) increased from HK$204.8 million for the year ended 31 December 2009 to HK$246.1 million for the year ended 31 December 2010, an increase of 20.2% over that of 2009.

## Income Tax Expense

Our income tax expenses increased by 6.2% from HK$40.4 million for the year ended 31 December 2009 to HK$42.9 million for the year ended 31 December 2010. At the same time, our effective tax rate decreased to 17.4% for the year ended 31 December 2010 from 19.7% for the year ended 31 December 2009, primarily as a result of (i) increase in profit before tax in one of the Company's PRC subsidiaries, which enjoy lower income tax rate, (ii) an increase in research and development expenses for the year ended 31 December 2010, which gave an extra tax benefit.

## Profit for the Year

Our profit for the year ended 31 December 2010 was HK$203.2 million, representing an increase of 23.6% over the profit of HK$164.4 million for the year ended 31 December 2009.

### Working capital and financial resources

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | ***(HK$ million)*** | ***(HK$ million)*** |
| Trade receivables | 493.7 | 584.5 |
| Trade and notes payables | 685.2 | 772.4 |
| Inventories | 571.3 | 811.1 |
| Trade receivables turnover days | 53 | 61 |
| Trade and notes payables turnover days | 89 | 104 |
| Inventories turnover days | 85 | 123 |

The decrease of HK$90.8 million in our trade receivables balance from HK$584.5 million as at 31 December 2009 to HK$493.7 million as at 31 December 2010 is primary due to the carve out of a discontinued operation during the seven months ended 31 July 2010 resulting in a reduction of HK$82.6 million.

The decrease of HK$87.2 million in our trade and notes payables balance from HK$772.4 million as at 31 December 2009 to HK$685.2 million as at 31 December 2010 was primarily due to the carve out of a discontinued operation during the seven months ended 31 July 2010 resulting in a reduction of HK$139.1 million. This decrease is partially offset by the increase in trade payables due to the increase in business volume.

The decrease of HK$239.8 million in our inventories balance from HK$811.1 million as at 31 December 2009 to HK$571.3 million as at 31 December 2010 was primarily due to the carve out of a discontinued operation during the seven months ended 31 July 2010 resulting in a reduction of HK$412.0 million. This reduction in inventories was partially offset by the increase in inventories due to the increase in business volume.

## Liquidity and Financial Resources

The Group generally finances its operations and future plans with internal generated cash flow from operating activities and banking facilities.

As at 31 December 2010, the Group's cash and cash equivalent was approximately HK$1,024.7 million (2009: approximately HK$218.6 million).

As at 31 December 2010, the Group's interest-bearing bank borrowings were approximately HK$472.4 million (2009: approximately HK$502.5 million), of which approximately HK$242.1 million are denominated in RMB (2009: approximately HK$431.6 million are denominated in RMB), and approximately HK$230.3 million are denominated in U.S. dollar (2009: approximately HK$70.9 million are denominated in U.S. dollar).

## Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

## Exchange rate fluctuations

Our sales are mainly denominated in U.S. dollars and Renminbi. Our cost of sales and operating expenses are mainly denominated in Renminbi. Approximately 77.7% of our revenue for the year ended 31 December 2010 was denominated in U.S. dollars. The Renminbi appreciated 3.0% against the U.S. dollar for the year ended 31 December 2010. Our profit margins will be negatively affected to the extent that we are unable to increase the U.S. dollar selling prices of the products we sell to our overseas customers to offset any appreciation of the Renminbi against the U.S. dollar.

During the year ended 31 December 2010, the Group entered into forward exchange contracts denominated in U.S. dollar in order to manage this exposure. The foreign currency risk is set out in note 41 to the Financial Statements.

## Pledge of Assets

As at 31 December 2010, certain of the Group's interest-bearing bank borrowings were pledged by intra-group trade receivables of approximately HK$167.2 million (2009: approximately HK$74.9 million), and such trade receivables had been eliminated upon consolidation.

## Reorganisation

The Group had undergone a reorganisation during the year to dispose of certain domestic retail business, and such disposal of domestic retail business has been accounted for as a discontinued operation. For details of such reorganisation please refer to the section headed "History, Reorganisation and Group Structure – Reorganisation" in the Company's prospectus dated 11 November 2010.

## Gearing

The Group's gearing ratio (calculated by net debt divided by sum of the equity attributable to owners of the parent and net debt; net debt is calculated by sum of trade and notes payables, other payables, advances from customers and accruals, interest-bearing loans and borrowings (current and non-current) and amounts due to related parties minus cash and cash equivalent) was approximately 20.9 % as at 31 December 2010 (2009: approximately 69.7%).

## Valuation of Properties

For the purpose of listing of the Company's shares on the main board of the Stock Exchange in November 2010, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements.

By reference to the property valuation set out in Appendix IV to the prospectus of the Company dated 11 November 2010, a revaluation surplus of approximately HK$245.2 million was recorded in respect of the property interests of the Group as at 30 September 2010. Were the property stated at that valuation, the depreciation charge per year would have increased by approximately HK$11.9 million.


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# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**SONG Zhenghuan（宋鄭還）**, *aged 62*, is an executive Director, chairman of our Company, chief executive officer and the founder of our Group. With more than 20 years of experience in the juvenile products industry, Mr. Song is primarily responsible for our Group's overall strategic planning and management of our Group's business. Mr. Song majored in mathematics and graduated from Jiangsu Teachers University（江蘇師範學院）in 1981 with a Certificate of Graduation. Prior to establishing our Company, Mr. Song was a teacher in Lujia Middle School in Kunshan City from 1973 to 1984 and was the vice principal from 1984 to 1993. Concurrently, between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School as encouraged by the then PRC governmental policy, which was the predecessor of Goodbaby Group Co., Ltd., our major founding shareholder. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded Goodbaby Group Co., Ltd. to engage in the design, manufacture and marketing of strollers under the "好孩子 Goodbaby" brand in China. In 1990, our Group was granted a 10-year patent in China for "push and rock" stroller invented by Mr. Song.

Because of Mr. Song's outstanding achievements, he was awarded the Ernst & Young Entrepreneur of the Year Award（安永企業家獎）for the greater China region in 2007. In 2008, Mr. Song was awarded the "Chinese Toy Industry's Outstanding Achievement Award"（中國玩具行業傑出成就獎）by the China Toy Association and thus far is the only recipient of such award.

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

(i) Goodbaby Child Products Co., Ltd.（好孩子兒童用品有限公司）

(ii) Ningbo Goodbaby Child Products Co., Ltd.（寧波好孩子兒童用品有限公司）

(iii) Paragon Child Products Co., Ltd.（昆山百瑞康兒童用品有限公司）

(iv) Goodbaby Children's Products, Inc.

(v) Goodbaby (Hong Kong) Limited

(vi) Goodbaby Japan Co., Ltd.

(vii) Pacific United Developments Limited

(viii) Turn Key Design B.V.

(ix) Turn Key Design Cooperatie U.A.

# DIRECTORS

## Non-Executive Directors

**WANG Haiye（王海燁）**, *aged 45*, is our vice president and was appointed as our executive Director on 19 August 2010 and as our chief operating officer on 18 March 2011. Mr. Wang is primarily responsible for the oversight of international sales and production of our products. Mr. Wang joined our Group in 1992 and has over 18 years of experience in manufacturing juvenile products. Mr. Wang was appointed as our manager for the operations management department in 1995, responsible for establishing and improving the Company's operations management system. Mr. Wang was appointed as the Company's vice president in 1999, overseeing the Company's manufacturing operations, including production, purchasing, quality control and outsourcing. During his appointment, Mr. Wang initiated and established the Company's manufacturing resources planning system, which was subsequently upgraded to the ERP system in 2008. Under Mr. Wang's leadership and initiatives, we effectively expanded our production capabilities, which supported a sustainable growth in sales. Mr. Wang graduated from Xiamen University in 1989 with a Bachelor's degree in management statistics.

Mr. Wang is currently a director of the following subsidiaries of our Group:

(i) Goodbaby Child Products Co., Ltd. (好孩子兒童用品有限公司)

(ii) Paragon Child Products Co., Ltd. (昆山百瑞康兒童用品有限公司)

Mr. Wang is a director of Pacific United Developments Limited ("PUD"), a substantial shareholder of the Company, and an indirect shareholder of PUD through Powergain Global Limited.

**Christopher Marcus GRADEL**, *aged 39*, has been a Director since January 2006 and was re-designated as a non-executive Director in November 2007 to reflect his actual role in the Company as he was not and is not involved in the day to day management and operation of the Company. Mr. Gradel is a board representative of CRF Enterprise Limited and is not involved in the day-to-day operations of the Company. In July 2002, Mr. Gradel co-founded Pacific Alliance Investment Management Limited and currently serves as the managing partner of Pacific Alliance Investment Management Limited and Pacific Alliance Group Limited. Before founding Pacific Alliance Investment Management Limited, Mr. Gradel worked as an engagement manager at McKinsey & Company, Hong Kong from 1999 to 2002. Mr. Gradel also worked at The Marmon Group, China from October 1994 to October 1998. Mr. Gradel received a joint Master's degree in engineering, economics and management from the University of Oxford in 1994.

## DIRECTORS

### Independent Non-Executive Directors

**CHIANG Yun**（**張昀**）, *aged 43*, has been a Director of the Company since July 2000 and was re-designated as a non-executive Director in November 2007 to reflect her actual role in the Company as she was not and is not involved in the day to day management and operation of the Company. Ms. Chiang has over 16 years of private equity investment experience in Asia. Ms. Chiang is a founding managing partner of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, the private equity division of Pacific Alliance Group. ARC Capital Partners Limited is the investment manager of ARC Capital Holdings Limited, an AIM-listed private equity fund launched in June 2006. Prior to the founding of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, Ms. Chiang was a Vice President of AIG Global Investment. Ms. Chiang is also an independent non-executive director of Sands China Ltd., which is a company listed on the Stock Exchange. Ms. Chiang received her Degree of Executive Master of Business Administration from The Kellogg Graduate School of Management of Northwestern University in the U.S. and Hong Kong University of Science and Technology in 1999. Ms Chiang also received her Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in the U.S. in 1992.

**LONG Yongtu**（**龍永圖**）, *aged 67*, was appointed as our independent non-executive Director on 5 November 2010. Mr. Long has been the secretary-general of Boao Forum for Asia since 2003, a non-profit organization committed to promoting economic integration among Asian countries. Mr. Long has held several positions with the PRC Ministry of Foreign Trade and Economic Cooperation (MOFTEC) from 1992 to 2003, including director-general of the Department of International Relations and Vice Minister and the Chief Representative for Trade Negotiations. During his tenure at MOFTEC, Mr. Long led the negotiations for China's accession to the World Trade Organization. Mr. Long has also served as deputy director-general at China International Center for Economic and Technical Exchanges (CICETE) from 1986 to 1992 and a diplomat in the United Nations from 1978 to 1986. Mr. Long was an independent non-executive director of China Life Insurance Company Limited from December 2003 to May 2009 and an independent non-executive director of Alibaba.com Limited from October 2007 to May 2009, both of which are listed on the Stock Exchange. Mr. Long is currently Dean of the School of International Relations and Public Affairs at Fudan University, holds a Bachelor's degree in British and American literature from Guizhou University from which he graduated in 1965 and an honorary degree of Doctor of Science (Economics) from the London School of Economics and Political Science which he received in 2006.

**Iain Ferguson BRUCE**, *aged 70*, was appointed as our independent non-executive Director on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996 and served as chairman of KPMG Asia Pacific from 1993 to 1997. He has been a member of the Institute of Chartered Accountants of Scotland since 1964 and is a fellow of the Hong Kong Institute of Certified Public Accountants. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute.

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

- independent non-executive director of Paul Y. Engineering Group Limited, a company listed on the Stock Exchange;
- independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange;
- independent non-executive director of Vitasoy International Holdings Limited, a company listed on the Stock Exchange;
- independent non-executive director of Wing On Company International Limited, a company listed on the Stock Exchange;
- independent non-executive director of Sands China Limited, a company listed on the Stock Exchange;
- non-executive director of Noble Group Limited, a company listed on the Singapore Exchange Limited;
- non-executive director of China Medical Technologies, Inc., a company listed on NASDAQ; and
- non-executive director of Yingli Green Energy Holding Company Limited, a company listed on the New York Stock Exchange.

Mr. Bruce is an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited. Mr. Bruce has over 45 years of experience in the accounting profession and possesses the accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules.

**SHI Xiaoguang（石曉光）**, *aged 64,* was appointed as our independent non-executive Director on 5 November 2010. Mr. Shi has been the chairman of the China Toy Association（中國玩具協會）and a director of the International Council of Toy Industries since 2005. In October 2000, Mr. Shi was appointed as the vice-chairman of the National Technical Committee of Standardization for Toys by the General Administration of Quality Supervision Inspection and Quarantine. The China Toy Association routinely provides information and holds training seminars on toy safety, product design and market development. The scope of the responsibilities of the China Toy Association spans from recommending the safety standards and/or regulations of durable juvenile products which the Group designs and manufactures to recommending the safety standards and/or regulations of other general toys and related products in the industry. Mr. Shi graduated from Beijing University of Chemical Technology（北京化工大學）(formerly known as Beijing College of Chemical Technology （北京化工學院）) with a Bachelor's degree in chemical apparatus and engineering in July 1974. Mr. Shi served as the vice-chairman of the department of general administration of The Ministry of Science and Technology from 1985 to 1987. He became a certified engineer in the PRC in September 1987, as granted by the State Scientific and Technological Commission（國家科學技術委員會）. From November 1987 to November 1990, he served as the deputy general of China National Scientific Instruments and Materials Corporation（中國科學器材公司）. Mr. Shi was appointed as the chairman of the service centre of The Ministry of Light Industry in 1989. From 1993 to 2007, he served as the general manager of China National Arts & Crafts (Group) Corporation（中國工藝美術集團公司）(formerly known as China National Arts & Crafts Corporation（中國工藝美術總公司）). In October 2000, Mr. Shi was appointed as the vice-chairman of the National Technical Committee of Standardization for Toys by the General Administration of Quality Supervision, Inspection and Quarantine.

# SENIOR MANAGEMENT

**LIU Tongyou（劉同友）**, *aged 43*, is our vice president and the chief financial officer primarily responsible for the legal and corporate finance affairs and investor relationship of the Group. Mr. Liu joined our Group in 1995 and has over 15 years of experience in the children's products industry. Mr. Liu graduated from Tianjin University of Finance & Economics（天津財經大學）with a Master's degree in economics in 1992. From March 1993 to July 1995, Mr. Liu served as a director of Beijing Standard Consultancy Company（北京標準諮詢公司）responsible for consulting on the restructuring and listing of a number of companies established in the PRC including Hainan Airlines Company Limited（海南航空股份有限公司）, a company listed on the Shanghai Stock Exchange. Since October 2008, Mr. Liu has been a part-time professor of the Business School of Tianjin University of Finance & Commerce（天津財經大學商學院）.

**QU Michael Nan（曲南）**, *aged 43*, is our vice president primarily responsible for managing key overseas accounts and strategic overseas resources of the Group. Mr. Qu joined our Group in 1994 and was responsible for establishing Goodbaby Children's Products, Inc. in the United States, and has since been managing the North American business. Mr. Qu also manages our relationship with our customers in Europe. In 2007, Mr. Qu participated in the team formation and establishment of the Company's R&D centers in Utrecht, the Netherlands and Boston, United States. Mr. Qu has been overseeing the operations of both R&D centers since their commencement. Mr. Qu studied economics in Peking University from 1986 to 1989, then went to the United States to study business administration at George Mason University from 1989 to 1992.

**HE Xinjun（賀新軍）**, *aged 50*, is our vice president primarily responsible for the market research, product development and design of our products. Mr. He joined our Group in 1995 as a design engineer and has over ten years of experience in designing juvenile products. Mr. He graduated from Gansu Radio and Television University（甘肅廣播電視大學）majoring in mechanical engineering.

**ZHU Yunlong（竺雲龍）**, *aged 43*, is our vice president primarily responsible for overseeing all quality control and functions of our Group. Mr. Zhu joined our Group in 2006. Prior to joining our Group, Mr. Zhu was the regional quality director of Electra Consumer Products. Mr. Zhu has also worked as a quality director for Concord Camera (HK) Limited. Mr. Zhu graduated from Southern Illinois University with an MBA and is currently a doctoral candidate of business administration at Grenoble Ecole de Management, France. Mr. Zhu has been serving as the vice-chairman of Kunshan Quality Association（昆山質量協會）and the member of Shanghai Quality Association（上海質量協會）since March 2008. He has been appointed as a member of the expert team of the Technical Committee of Standardization for Toys by the China Toy Association（中國玩具協會）since June 2008 and is recognized as a quality management expert by the Administration of Quality and Technology Supervision of Jiangsu Province（江蘇省質量技術監督局）. He is also a student member of the Academy of Management and a member of the European Academy of Management.

**LI Chun（李春）**, *aged 48*, is our vice president primarily responsible for human resources of our Group. Mr. Li joined our Group in 2005 and prior to joining our Group, Mr. Li was the human resources and administrative director of Trane China Distribution. Mr. Li has also worked as the human resources and administrative director for Pillsbury China Limited. Mr. Li graduated from East China Normal University in Shanghai with a Bachelor's degree in psychology.

## COMPANY SECRETARY

**PAU Lai Mei（鮑麗薇）**, *aged 51*, is the company secretary of our Company and was appointed on 5 November 2010. Ms. Pau has been with the Corporate Services Division of Tricor Services Limited since 2004, a global professional services provider specializing in integrated business, corporate and investor services, her current position is director – corporate services. Ms. Pau is a Chartered Secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has more than 25 years of working experience in the field of corporate secretarial services.

# CORPORATE GOVERNANCE REPORT

**The Board is pleased to present this corporate governance report in the annual report for the year ended 31 December 2010.**

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented is explained in the following sections of this corporate governance report:

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the CG Code contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, save as disclosed below, the Company has complied with all the code provisions and certain recommended best practices as set out in the CG Code since 24 November 2010 (the date on which dealings in the Company's shares first commenced on the Stock Exchange in Hong Kong), (the "Listing Date") to the end of the financial year of 2010.

Throughout the year under review, the Company has complied with the code provisions as set out in the CG Code, save for the deviation from code provision A.2.1, which is explained in the relevant paragraph of this report.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

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

## THE BOARD

### RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

## BOARD COMPOSITION

The Board currently comprises seven members, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its membership comprising independent non-executive Directors.

The list of all Directors, which also specifies the posts, e.g. of chairman and chief executive officer, and chairman and member of committee(s), held by each Director are set out under "Corporate Information" on page 2. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The biographical details of the Directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The Board comprises the following Directors:

**Executive Directors:**
Mr SONG Zhenghuan
Mr WANG Haiye

**Non-executive Directors:**
Mr Christopher Marcus GRADEL
Ms CHIANG Yun

**Independent non-executive Directors:**
Mr Iain Ferguson BRUCE
Mr LONG Yongtu
Mr SHI Xiaoguang

None of the members of the Board is related to one another, save and except that Mr WANG Haiye, executive Director, vice president and chief operating officer, is the nephew of Mr SONG Zhenghuan, the chairman, chief executive officer and executive Director of the Company.

During the year ended 31 December 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr SONG Zhenghuan is an executive Director, the chairman, chief executive officer of the Company and the founder of our Group. The Board considers that vesting the roles of the chairman and chief executive officer of the Company in the same person is necessary because of the importance of Mr Song in the business development efforts of the Company and it is beneficial to the business prospects and management of the Group. Furthermore, all major decisions are made in consultation with members of the Board, appropriate Board committees or senior management of the Group. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the Directors (including executive and non-executive Directors) of the Company is engaged on a service contract for a specific term of three years and shall be subject to retirement by rotation once every three years. The appointment may be terminated by not less than three months' written notice.

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

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association.

### Nomination Committee

The Nomination Committee comprises three members, namely Mr Iain Ferguson BRUCE (chairman), Mr LONG Yongtu and Mr SHI Xiaoguang, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the relevant sector, professional and educational background, and potential time commitments. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

No meeting has been held by the Nomination Committee for the period from the Listing Date to 31 December 2010. The Nomination Committee considers that it is not necessary to review the size and composition of the Board and identify any new board member for the period from the Listing Date to 31 December 2010. At least one meeting of the Nomination Committee will be conducted in 2011.

The Company's circular dated 15 April 2011 contains detailed information of the Directors standing for re-election.

## TRAINING OF DIRECTORS

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his / her appointment to ensure appropriate proper understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

## BOARD MEETINGS

### Board Practices and Conduct of Meetings

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

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

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

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

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

### Directors' Attendance Records

The Board met 5 times during the year ended 31 December 2010.

The attendance records of each Director at the Board meetings during the year ended 31 December 2010 are set out below:

| Name of Director | Attendance / Number of Meetings |
|---|---|
| SONG Zhenghuan | 5/5 |
| WANG Haiye | 3/5 |
| Christopher Marcus GRADEL | 4/5 |
| CHIANG Yun | 5/5 |
| Iain Ferguson BRUCE (appointed on 5 November 2010) | 0/5 |
| LONG Yongtu (appointed on 5 November 2010) | 2/5 |
| SHI Xiaoguang (appointed on 5 November 2010) | 2/5 |

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the requirements set out in the Model Code since the Listing Date up to and including 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## DELEGATION BY THE BOARD OF MANAGEMENT FUNCTION

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer (also chairman) and the senior management of the Company. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2010 are set out in note 10 to the Financial Statements.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Iain Ferguson BRUCE (chairman), Mr. LONG Yongtu and Mr. SHI Xiaoguang, all of whom are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his / her associates will participate in deciding his / her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

As the Company was just listed on the Listing Date and there was no change in the policy and structure of the remuneration of the Directors and senior management of the Group, and accordingly, no meeting was convened by the Remuneration Committee for the period from the Listing Date to 31 December 2010. Up to the date of this annual report, a meeting of the Remuneration Committee was held on 18 March 2011.

## ACCOUNTABILITY AND AUDIT

### DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Where appropriate, a report will be submitted on any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The responsibilities of the external auditors with Respect to Financial Reporting are set out in the "Independent Auditors' Report" on pages 66 to 67.

## INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

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

The key elements of the Group's internal control system include the following:

- An organizational structure with clearly defined and distinct lines of authority and control responsibilities
- A comprehensive financial accounting system to provide for performance measurement indicators and to ensure compliance with relevant rules
- Annual plans prepared by senior management on financial reporting, operations and compliance with reference to potential significant risks
- Strict prohibition of unauthorized expenditures and release of confidential information
- Specific approval from executive director or responsible senior executive prior to commitment in all material matters
- Review and evaluation of the control process and monitoring of any risk factors on a regular basis by the management; and report by the same to the Audit Committee on any findings and measures to address the variances and identified risks.

## Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely, Iain Ferguson BRUCE (chairman), LONG Yongtu and SHI Xiaoguang. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- Review of the financial information of the Group
- Review of the relationship with and the terms of appointment of the external auditors
- Review of the Company's financial reporting system, internal control system and risk management system.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2010, the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, the independence, performance and the re-appointment of the external auditors and the nature and scope of audit.

No meeting of the Audit Committee was held during the period from the Listing Date to 31 December 2010. Up to the date of this annual report, two meetings of the Audit Committee were held on 21 January 2011 and 18 March 2011, respectively.

## EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 66 to 67 of this report.

For the year ended 31 December 2010, apart from the provisions of annual audit services, the Group's external auditors, Ernst & Young, were also the reporting accountants of the Company in relation to the listing. During the year under review, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

| | *HK$'000* |
|---|---|
| *Audit Services* | |
| Annual audit services | 3,064 |
| Reporting accountants' work in relation to the listing | 5,741 |
| *Non-audit Services* | |
| Annual tax filing services | 33 |

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the shareholders.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS / INVESTOR RELATIONS

The general meetings of the Company provide a forum and an important channel for communication between the Board and the shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The 2011 Annual General Meeting ("AGM") will be held on 20 May 2011. The notice of AGM was sent to shareholders at least 20 clear business days before the AGM.

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

## SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.


gb

# REPORT OF THE BOARD OF DIRECTORS

**The Directorsare pleased to present their report and the audited financial statements for the year ended 31 December 2010 of the Group.**

## CORPORATE REORGANISATION AND INITIAL PUBLIC OFFERING

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 July 2000. Pursuant to a reorganisation to rationalize the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group. Details of reorganisation are set out in the Company's prospectus dated 11 November 2010 ("the Prospectus").

The Company's shares have been listed on the Stock Exchange since 24 November 2010 (the "Listing Date").

## MAJOR BUSINESS

The Company is an investment holding company, and its subsidiaries are principally engaged in the design, research and development, manufacture, marketing and sale of strollers, children's car safety seats, cribs, bicycles and tricycles, and other durable juvenile products. The analysis of the revenue of the Group for the year is set out in note 5 to the Financial Statements.

## FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on pages 68 to 69. The financial position as at 31 December 2010 of the Group are set out in the Consolidated Statement of Financial Position on pages 70 to 71. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 73 to 74.

## SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 34 to the Financial Statements.

## FINAL DIVIDEND

At the Board meeting held on 18 March 2011, it was proposed that a final dividend of HK$0.05 per ordinary share representing a total distribution of HK$50.0 million be paid on 3 June 2011 to the shareholders of the Company whose names appear on the Company's register of members on 20 May 2011. The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 20 May 2011.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

## BOOK CLOSE PERIOD

The Company's register of members will be closed from 13 May 2011 (Friday) to 20 May 2011 (Friday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the Company's annual general meeting and be entitled to attend and vote at the annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 12 May 2011 (Thursday) for registration of the relevant transfer.

## RESERVE

Details of the changes in reserve of the Group during the year are set out in note 35 to the Financial Statements.

As at 31 December 2010, the reserves of the Company available for distribution to shareholders was approximately HK$1,034.9 million.

## PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 17 to the Financial Statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined was less than 30% of the Group's total purchase. The percentages of sales for the year attributable to the Group's major customers are as follows:

| | |
|---|---|
| – the largest customer | 42.4% |
| – five largest customers in aggregate | 57.8% |

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

* For identification purpose only

## DONATION

During the year the charitable contributions and other donations made in Hong Kong and China totalled HK$2.2 million.

## DIRECTORS

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

### Executive Directors

SONG Zhenghuan (appointed on 14 July 2000)
WANG Haiye (appointed on 19 August 2010)

### Non-executive Directors

Christopher Marcus GRADEL
(appointed on 26 January 2006)
CHIANG Yun (appointed on 14 July 2000)

### Independent non-executive Directors

Iain Ferguson BRUCE
(appointed on 5 November 2010)
LONG Yongtu (appointed on 5 November 2010)
SHI Xiaoguang (appointed on 5 November 2010)

Ms. Fu Jingqiu was a director of the Company in 2010 until her resignation in 19 August 2010. Further details of the Directors and senior management are set forth in the section "Directors and Senior Mangement" of this annual report.

In accordance with the articles of association of the Company, all of our Directors will retire in the coming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the annual general meeting.

## SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years from the Listing Date.

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

## DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 38 to the Financial Statements and in the section "Connected transactions" below, there was no other significant contracts with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

## DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

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

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

Each of the Covenantors has provided an annual declaration on his/her/its compliance with the undertakings contained in the Deed of Non Competition undertaken by them. The independent non-executive Directors have reviewed and were satisfied that each of the Covenantors has complied with the Deed of Non-Competition for the year ended 31 December 2010.

## SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the Board of Directors can grant options for the subscription of the Company's shares to any 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 Share Option Scheme as incentives or rewards for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Since the Share Option Scheme was adopted, no options have been granted as at 31 December 2010.

As at 31 December 2010, the total number of Shares available for issue under the Share Option Scheme was 100,000,000 Shares, which represented 10% of the Shares in issue as at the date of this annual report.

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

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

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

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

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

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

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

As at 31 December 2010, 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 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 for Securities Transactions by Directors of Listed Companies, are as follows:

### Directors' Interest in the Shares

| Name of Director | Nature of Interest | Number of Shares | Approximate percentage of Shareholding |
|---|---|---|---|
| Mr. Song Zhenghuan (Note 2) | Beneficiary of a trust | 259,000,000 (L) | 25.9% |

*Notes:*

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

*(2) Mr. Song is a discretionary beneficiary of a trust of which Credit Suisse Trust Limited is the trustee. See note 2 of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of this interest.*

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2010, 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 | Percentage of Shareholding |
|---|---|---|---|
| Pacific United Developments Limited | Beneficial owner | 259,000,000 (L) | 25.9% |
| Cayey Enterprises Limited (Note 2) | Interest of controlled corporation | 259,000,000 (L) | 25.9% |
| Credit Suisse Trust Limited (Note 2) | Trustee | 259,000,000 (L) | 25.9% |
| Grappa Holdings Limited (Note 2) | Interest of controlled corporation | 259,000,000 (L) | 25.9% |
| Seletar Limited (Note 2) | Interest of controlled corporation | 259,000,000 (L) | 25.9% |
| Serangoon Limited (Note 2) | Interest of controlled corporation | 259,000,000 (L) | 25.9% |
| Ms. Fu Jingqiu (Note 2) | Settlor/beneficiary of a trust | 259,000,000 (L) | 25.9% |
| CRF Enterprise Limited | Beneficial owner | 396,000,000 (L) | 39.6% |
| CRF Investment Limited (Note 3) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| CRF Investment Holdings Limited (Note 4) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| ARC Capital Holdings Limited (Note 4) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| ARC Capital Partners Limited (Note 5) | Investment manager | 396,000,000 (L) | 39.6% |

| Name | Capacity | Number of Shares | Percentage of Shareholding |
|---|---|---|---|
| Pacific Alliance Equity Partners Limited (Note 6) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| Pacific Alliance Investment Management Limited (Note 7) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| Pacific Alliance Group Limited (Note 8) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| Pacific Alliance Group Holdings Limited (Note 9) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| Millennium Partners, L.P. (Note 10) | Interest of controlled corporation | 396,000,000 (L) | 39.6% |
| Mirae Asset Global Investments (Hong Kong) Limited | Investment manager | 67,029,000 (L) | 6.7% |

*Notes:*

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

*(2) Pacific United Developments Limited is owned as to approximately 45.39% by Cayey Enterprises Limited, which in turn is, as at 31 December 2010, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited, which is the trustee holding such interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.*

*(3) CRF Investment Limited holds a 74.78% shareholding interest in CRF Enterprise Limited and is therefore deemed to be interested in 396,000,000 Shares.*

*(4) ARC Capital Holdings Limited ("ARCH") and CRF Investment Holdings Limited ("CRFIH") hold respectively a 50.25% and 49.75% shareholding interest in CRF Investment Limited, and consequently each of ARCH and CRFIH is deemed to be interested in 396,000,000 Shares.*

*(5) ARCH is an investment fund the shares of which are managed by ARC Capital Partners Limited ("ACP"), which has the right to exercise the voting rights attached to ARCH's holding of shares in CRF Investment Limited and consequently ACP is deemed to be interested in 396,000,000 Shares.*

*(6) Pacific Alliance Equity Partners Limited ("PAEP") holds a 100% shareholding interest in ACP and is therefore deemed to be interested in 396,000,000 Shares.*

*(7) Pacific Alliance Investment Management Limited ("PAIM") holds a 61.8% shareholding interest in PAEP and is therefore deemed to be interested in 396,000,000 Shares.*

*(8) Pacific Alliance Group Limited ("PAG") holds a 90% shareholding interest in PAIM and is therefore deemed to be interested in 396,000,000 Shares.*

*(9) Pacific Alliance Group Holdings Limited holds 99.17% shareholding interest in PAG and is therefore deemed to be interested in 396,000,000 Shares.*

*(10) Millennium Partners, L.P. holds a 34.72% shareholding interest in CRFIH and is therefore deemed to be interested in 396,000,000 Shares. Millennium Management LLC is the general partner of Millennium Partners, L.P., and therefore may also be deemed to be interested in 396,000,000 Shares. Israel A. Englander, is the managing member of Millennium Management LLC, and therefore may also be deemed to be interested in 396,000,000 Shares.*

## SUBSIDIARIES

The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2010 are set out in note 31 to the Financial Statements.

## MANAGEMENT CONTRACTS

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

## CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2010 set out in note 38 to the Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

### A. Continuing connected transactions which are exempted from the independent shareholders' approval requirement, but subject to the reporting, annual review and announcement requirements of the Listing Rules

(a) *Provision of Services by Goodbaby Child Products Co., Ltd.*（好孩子兒童用品有限公司）("GCPC") to Geoby Electric Vehicle Co., Ltd.*（捷奧比電動車有限公司）("GPCL")*

On 8 November 2010, GCPC, a subsidiary of the Company, entered into an agreement (the "General Services Agreement") with GPCL for a period commencing from 24 November 2010 and ending on 31 December 2012 with respect to our provision of general services to GPCL, including, cleaning and maintenance of the landscape, security, repair and maintenance, management and other services in relation to the Goodbaby industrial park situated at Lujia Town, Kunshan, the PRC. A staff dormitory, canteen and factories, occupied and/or used by GPCL and/or its employees are located at the property. The amount of service fees payable by GPCL to GCPC under the General Services Agreement is determined based on the actual costs incurred by GCPC plus an approximate premium of 5%.

* For identification purpose only

During the year under review, the total amount of service fees paid by GPCL to GCPC under the General Services Agreement was HK$1,508,000 and the annual cap amount granted by the Stock Exchange was HK$2,100,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions".

(b) *Supply of components by GCPC to GPCL*

On 8 November 2010, GCPC entered into an agreement with GPCL (the "GPCL Supply Agreement") for a period commencing from 24 November 2010 and ending on 31 December 2012, pursuant to which GCPC agreed to supply components (mainly plastic components) to GPCL for the manufacture of wheelchairs and sports equipment. The amount payable by GPCL to GCPC under the GPCL Supply Agreement is determined based on prevailing market rate.

During the year under review, the total amounts paid by GPCL to GCPC for the supply of components under the GPCL Supply Agreement was HK$15,380,000 and the annual cap amount granted by the Stock Exchange was HK$17,200,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions".

GPCL was a wholly owned subsidiary of G-Baby Holdings Limited, which in turn was held as to approximately 37% and 63% by Pacific United Developments Limited ("PUD") and CRF Enterprise Limited ("CRF Enterprise"), respectively, both of which are controlling shareholders of the Company. Accordingly, GPCL was an associate of PUD and CRF Enterprise under the Listing Rules and thus would be regarded as a connected person of our Company under the Listing Rules. As at 18 January 2011, GPCL ceased to be a connected person of the Company under the Listing Rules as it was disposed by G-Baby Holdings Limited to an independent third party.

## B. Continuing connected transaction subject to the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules

(a) *Sale of our products by GCPC to Goodbaby China Commercial Co., Ltd. (好孩子（中國）商貿有限公司）("GCCL")*

On 8 November, 2010, GCPC entered into an agreement (the "GCCL Supply Agreement") with GCCL for a period commencing from 24 November 2010 and ending on 31 December 2012, pursuant to which GCPC agreed to supply strollers, children's car safety seats, cribs, children's bicycles and other durable juvenile products (the "Products") to GCCL for domestic sales. The purchase price of the Products payable by GCCL to GCPC under the GCCL Supply Agreement is determined based on prevailing market rate.

During the year under review, the total amounts paid by GCCL to GCPC for the Products under the GCCL Supply Agreement was HK$267,525,000 and the annual cap amount granted by the Stock Exchange was HK$288,800,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions".

* For identification purpose only

GCCL is a wholly owned subsidiary of G-Baby Holdings Limited, which in turn is held as to approximately 37% and 63% by PUD and CRF Enterprise, respectively, both of which are controlling shareholders of the Company. Accordingly, GCCL is an associate of PUD and CRF Enterprise under the Listing Rules and thus will be regarded as a connected person of our Company under the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

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

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

(iv) did not exceed the annual cap amounts.

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

Pursuant to Rule 14A. 37 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

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

(ii) either (a) on normal commercial terms or; (b) where there is no available comparable terms, on terms no less favorable to the Group than terms available to or from independent third parties; and

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

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2010, the Group had an aggregate of 16,169 full-time employees. Employee costs, excluding directors' emoluments, totalled HK$567.7 million for the year of 2010. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

The Company has also adopted a share option scheme on 5 November 2010. During the year, no share option was granted.

## CONFIRMATION OF INDEPENDENT STATUS

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

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 24 November 2010, the Company's shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and raised net proceeds of approximately HK$894.3 million. As at 31 December 2010, the Company has used approximately HK$89.5 million from such proceeds as working capital. The balance of the un-utilized proceeds, deposited in normal interest bearing saving accounts, will be applied by the Company as stated in the section headed "Future Plans and Use of Proceeds" of the Company's Prospectus.

## CORPORATE GOVERNANCE

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

## EXCHANGE RISKS

Details of the exchange risks are set out in note 41 to the Financial Statements.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

## DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

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

## EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 43 to the Financial Statements.

## FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past four financial years is set out on pages 158 to 159 of this report.

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENT PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules since the date of listing and up to 31 December 2010.

## AUDITORS

The financial statements of the Company for the year have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

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

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

18 March 2011

# INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 68 to 157, which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 March 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2010

| | Notes | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | **3,721,908** | 3,032,235 |
| Cost of sales | | **(2,979,349)** | (2,463,360) |
| **Gross profit** | | **742,559** | 568,875 |
| Other income | 6 | **32,851** | 25,105 |
| Selling and distribution costs | | **(246,002)** | (180,115) |
| Administrative expenses | | **(245,505)** | (175,994) |
| Other expenses | | **(20,593)** | (20,046) |
| **Operating profit** | | **263,310** | 217,825 |
| Finance income | 7 | **1,163** | 1,373 |
| Finance costs | 8 | **(18,341)** | (14,415) |
| **Profit before tax from continuing operations** | 9 | **246,132** | 204,783 |
| Income tax expense | 12 | **(42,942)** | (40,421) |
| **Profit for the year from continuing operations** | | **203,190** | 164,362 |
| **Discontinued operation** | | | |
| Loss after tax for the year from a discontinued operation | 14 | **(52,237)** | (104,654) |
| **Profit for the year** | | **150,953** | 59,708 |
| **Other comprehensive income** | | | |
| Exchange differences on translation | | **15,844** | 1,401 |
| Total comprehensive income for the year, net of tax | | **166,797** | 61,109 |
| Profit for the year attributable to: | | | |
| Owners of the parent | | **150,925** | 62,745 |
| Non-controlling interests | | **28** | (3,037) |
| | | **150,953** | 59,708 |

continued/...

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



Year Ended 31 December 2010

| | Notes | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|---|
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **165,871** | 64,123 |
| Non-controlling interests | | **926** | (3,014) |
| | | **166,797** | 61,109 |
| Earnings per share attributable to ordinary equity holders of the parent: | 16 | | |
| Basic and diluted | | | |
| – For profit for the year (HK$) | | **0.18** | 0.08 |
| – For profit from continuing operations (HK$) | | **0.24** | 0.20 |

Details of the dividends payable and proposed for the year are disclosed in note 15 to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 17 | **538,491** | 611,005 |
| Investment property | 18 | **–** | 10,580 |
| Prepaid land lease payments | 19 | **67,118** | 65,694 |
| Intangible assets | 20 | **30,836** | 36,533 |
| Deferred tax assets | 30 | **15,912** | 18,334 |
| Total non-current assets | | **652,357** | 742,146 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | **571,309** | 811,131 |
| Trade and notes receivables | 23 | **506,311** | 585,987 |
| Prepayments and other receivables | 24 | **178,243** | 156,244 |
| Due from related parties | 38 | **76,945** | 395,759 |
| Cash and cash equivalents | 25 | **1,024,722** | 218,585 |
| Total current assets | | **2,357,530** | 2,167,706 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 26 | **685,180** | 772,437 |
| Other payables, advances from customers and accruals | 27 | **265,924** | 412,255 |
| Interest-bearing bank borrowings | 29 | **319,590** | 127,687 |
| Derivative financial instruments | 21 | **2,885** | – |
| Due to related parties | 38 | **649** | 353,870 |
| Income tax payable | | **9,732** | 9,174 |
| Provision | 28 | **23,922** | 20,690 |
| Total current liabilities | | **1,307,882** | 1,696,113 |
| **NET CURRENT ASSETS** | | **1,049,648** | 471,593 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,702,005** | 1,213,739 |

continued/...

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 29 | **152,779** | 374,787 |
| Deferred tax liabilities | 30 | **8,349** | 14,539 |
| Total non-current liabilities | | **161,128** | 389,326 |
| Net assets | | **1,540,877** | 824,413 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 34 | **10,000** | 273 |
| Reserves | 35(a) | **1,505,099** | 793,121 |
| | | **1,515,099** | 793,394 |
| **Non-controlling interests** | | **25,778** | 31,019 |
| **Total equity** | | **1,540,877** | 824,413 |

**SONG Zhenghuan**
*Director*

**WANG Haiye**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2010

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (HK$'000) (note 34) | Share premium (HK$'000) | Statutory reserve funds (HK$'000) (note 35(a)) | Cumulative translation adjustments (HK$'000) | Merger reserve (HK$'000) (note 35(a)) | Proposed final dividend (HK$'000) (note 15) | Retained earnings (HK$'000) | Total (HK$'000) | Non-controlling interests (HK$'000) | Total equity (HK$'000) |
| As at 1 January 2009 | 273 | 255,668 | 80,889 | 123,525 | 118,276 | - | 150,640 | 729,271 | 29,663 | 758,934 |
| Profit/(loss) for the year | - | - | - | - | - | - | 62,745 | 62,745 | (3,037) | 59,708 |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation | - | - | - | 1,378 | - | - | - | 1,378 | 23 | 1,401 |
| Total comprehensive income for the year | - | - | - | 1,378 | - | - | 62,745 | 64,123 | (3,014) | 61,109 |
| Profit appropriation | - | - | 7,034 | - | - | - | (7,034) | - | - | - |
| Capital contributions by a non-controlling shareholder (note (a)) | - | - | - | - | - | - | - | - | 4,370 | 4,370 |
| As at 31 December 2009 and 1 January 2010 | **273** | **255,668** | **87,923** | **124,903** | **118,276** | **-** | **206,351** | **793,394** | **31,019** | **824,413** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **150,925** | **150,925** | **28** | **150,953** |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation | **-** | **-** | **-** | **14,946** | **-** | **-** | **-** | **14,946** | **898** | **15,844** |
| Total comprehensive income for the year | **-** | **-** | **-** | **14,946** | **-** | **-** | **150,925** | **165,871** | **926** | **166,797** |
| Proposed final 2010 dividend | **-** | **-** | **-** | **-** | **-** | **50,000** | **(50,000)** | **-** | **-** | **-** |
| Profit appropriation | **-** | **-** | **17,645** | **-** | **-** | **-** | **(17,645)** | **-** | **-** | **-** |
| Issuance of shares | **2,010** | **982,890** | **-** | **-** | **-** | **-** | **-** | **984,900** | **-** | **984,900** |
| Capitalization issue | **7,717** | **(7,717)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share issuance expenses | **-** | **(58,260)** | **-** | **-** | **-** | **-** | **-** | **(58,260)** | **-** | **(58,260)** |
| Dividends declared (note 15) | **-** | **(255,668)** | **-** | **-** | **-** | **-** | **(150,837)** | **(406,505)** | **-** | **(406,505)** |
| Deemed contribution from an equity holder (note 33) | **-** | **-** | **-** | **-** | **35,699** | **-** | **-** | **35,699** | **-** | **35,699** |
| Disposal of a discontinued operation | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(6,167)** | **(6,167)** |
| As at 31 December 2010 | **10,000** | **916,913*** | **105,568*** | **139,849*** | **153,975*** | **50,000*** | **138,794*** | **1,515,099** | **25,778** | **1,540,877** |

* *These reserve accounts comprise the consolidated reserves of HK$1,505,099,000 (2009: HK$793,121,000) in the consolidated statement of financial position.*

*Note (a): This arises from the capital injection to Mothercare-Goodbaby China Retail Limited ("MGCR") made by Mothercare International (Hong Kong) Limited, which holds a 30% equity interest of MGCR.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2010

| | Note | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the year: | | **150,953** | 59,708 |
| Adjustments for: | | | |
| Income tax expense | | **35,884** | 25,538 |
| Depreciation and amortization | | **93,429** | 108,335 |
| Loss on disposal of items of property, plant and equipment | | **977** | 3,334 |
| Fair value loss on derivative financial instruments | | **2,885** | 175 |
| Write-down of inventories | | **4,610** | 10,235 |
| (Reversal of)/provision for impairment of receivables | | **(620)** | 3,392 |
| Interest expense | | **24,482** | 31,352 |
| Interest income | | **(1,635)** | (1,462) |
| Transaction costs related to the issuance of shares | | **32,343** | – |
| (Increase)/decrease in inventories | | **(176,800)** | 23,847 |
| Increase in trade and notes receivables | | **(23,464)** | (167,911) |
| Increase in prepayments and other receivables | | **(65,231)** | (43,589) |
| Decrease in amounts due from related parties | | **161,242** | 122,989 |
| (Decrease)/increase in amounts due to related parties | | **(95,729)** | 23,956 |
| Increase in trade and notes payables | | **51,835** | 141,800 |
| Increase in other payables, advances from customers and accruals | | **11,764** | 58,358 |
| Increase in provision | | **2,404** | 11,810 |
| Income tax paid | | **(38,461)** | (17,618) |
| Net cash flows generated from operating activities | | **170,868** | 394,249 |

continued/...

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2010

| | Note | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|---|
| **Cash flows from investing activities:** | | | |
| Proceeds from disposal of property, plant and equipment | | **5,716** | 4,250 |
| Repayment of amounts due from related parties | | **-** | 1,135 |
| Advance to related parties | | **(43,997)** | (127,505) |
| Net cash outflow in respect of disposal of discontinued operations | 33 | **(37,262)** | - |
| Interest received | | **1,635** | 1,462 |
| Purchase of property, plant and equipment | | **(105,888)** | (71,428) |
| Purchase of intangible assets | | **(6,662)** | (3,053) |
| Purchase of land use rights | | **(9,139)** | (1,818) |
| Net cash flows used in investing activities | | **(195,597)** | (196,957) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance | | **984,900** | - |
| Proceeds from borrowings | | **836,127** | 1,248,384 |
| Repayment of borrowings | | **(882,807)** | (1,401,487) |
| Advance from related parties | | **-** | 11,348 |
| Share issue expense | | **(82,872)** | - |
| Interest paid | | **(24,482)** | (31,352) |
| Capital contributions by a non-controlling shareholder | | **-** | 4,370 |
| Net cash flows generated from/(used in) financing activities | | **830,866** | (168,737) |
| **Net increase in cash and cash equivalents** | | **806,137** | 28,555 |
| Cash and cash equivalents at 1 January | | **218,585** | 190,030 |
| Cash and cash equivalents at 31 December | | **1,024,722** | 218,585 |

Details of major non-cash transactions are included in note 42.

# STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 31 | **10,367** | 37,661 |
| Total non-current assets | | **10,367** | 37,661 |
| **CURRENT ASSETS** | | | |
| Other receivables | 24 | **7,103** | 95 |
| Due from subsidiaries | 38 | **520,522** | 215,219 |
| Due from related parties | 38 | **–** | 232,844 |
| Cash and cash equivalents | 25 | **531,174** | 80 |
| Total current assets | | **1,058,799** | 448,238 |
| **CURRENT LIABILITIES** | | | |
| Other payables | 27 | **23,497** | 25,381 |
| Due to a subsidiary | 38 | **148** | 1,899 |
| Due to related parties | 38 | **649** | 30,844 |
| Total current liabilities | | **24,294** | 58,124 |
| **NET CURRENT ASSETS** | | **1,034,505** | 390,114 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,044,872** | 427,775 |
| **Net assets** | | **1,044,872** | 427,775 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 34 | **10,000** | 273 |
| Reserves | 35(b) | **1,034,872** | 427,502 |
| **Total equity** | | **1,044,872** | 427,775 |

**SONG Zhenghuan**
*Director*

**WANG Haiye**
*Director*

## 1. CORPORATE INFORMATION

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

The Group is principally engaged in the manufacturing and distribution of child related products.

## 2. BASIS OF PREPARATION

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

Pursuant to a reorganization (the "Reorganization") to rationalize the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Group acquired a 100% equity interest in Kunshan Paragon Child Products Co., Ltd. ("PCPC") from a fellow subsidiary, Geoby Paragon Holdings Limited ("GPHL") in June 2010. As the Group, PCPC and GPHL were under the common control of G-Baby Holdings Limited ("GBHL") before and after the acquisition and the control were not transitory, the acquisition of PCPC were accounted for using the principle of pooling of interest method as if PCPC was the Group's subsidiary since 1 January 2009. Accordingly, the assets, liabilities and results of operations of PCCP were included in the preparation of the consolidated financial statement of the Group since 1 January 2009. Details of the Reorganization are set out in the Prospectus of the Company dated 24 November 2010.

## 2. BASIS OF PREPARATION (Continued)

### Changes in accounting policy and disclosures

For the purpose of these consolidated financial statements, the Group has adopted at the beginning of the financial years presented, all the IFRSs that have been issued and effective for the financial years presented.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

## 3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

| | |
|---|---|
| IFRS 1 Amendments | Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]<br>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4] |
| IFRS 7 Amendments | Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets[4] |
| IFRS 9 | Financial Instruments[6] |
| IAS 12 Amendments | Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[5] |
| IAS 24 (Revised) | Related Party Disclosures[3] |
| IAS 32 Amendment | Amendment to IAS 32 Financial Instruments: Presentation –Classification of Rights Issues[1] |
| IFRIC-Amendments 14 | Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement[3] |
| IFRIC-Amendments 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for the accounting periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Effective for annual periods beginning on or after 1 July 2010*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

# 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

## Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realized upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

# 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

## Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in its jointly-controlled entity is accounted for by the proportionate consolidation method, which involves recognizing its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entity are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investment in jointly-controlled entity is treated as non-current asset and stated at cost less any impairment losses.

## Business combinations and goodwill

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Business combinations and goodwill (Continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

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

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Impairment of non-financial assets

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

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

An assessment is made at the end of the year as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Property, plant and equipment and depreciation (Continued)

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

| | Estimated useful lives | Estimated residual value |
|---|---|---|
| Buildings | 20 years | 10% |
| Plant and machinery | 10 years | 10% |
| Motor vehicles | 5 years | 10% |
| Furniture and fixtures | 5 years | – |
| Leasehold improvements | lesser of lease term or useful life | – |

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

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Investment properties

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income or for capital appreciation or for both.

The Group's investment property is stated in the statement of financial position at cost less accumulated depreciation and any impairment losses. Depreciation is provided over its estimated useful live on a straight-line basis, after taking into account its estimated residual values. The estimated useful life of the investment property is 20 years.

The investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of derecognition. Transfers are made to or from the investment property only when there is a change in use.

### Intangible assets (other than goodwill)

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Intangible assets (other than goodwill) (Continued)

*Trademarks and computer software*

Expenditure on acquired trademarks and computer software is capitalized and amortized using the straight-line method over their estimated useful lives of five to thirty years.

*Research and development costs*

All research costs are charged to the statement of comprehensive income as incurred.

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

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

### Leases

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 of the Group are classified as loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, trade and notes receivables, other receivables and amounts due from related parties.

*Subsequent measurement*

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

*Loans and receivables*

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

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Investments and other financial assets (Continued)

*Derecognition of financial assets* (Continued)

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

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

*Impairment of financial assets*

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

*Financial assets carried at amortized cost*

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### **Investments and other financial assets** (Continued)

*Financial assets carried at amortized cost* (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

### **Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 of the Group are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and notes payables, other payables, derivative financial instruments, amounts due to related parties and interest-bearing bank borrowings.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

**Financial liabilities** (Continued)

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

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

*Loans and borrowings*

After initial recognition, trade and notes payables, other payables, amounts due to related parties and interest-bearing bank borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

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

*Derecognition of financial liabilities*

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Offsetting of financial instruments

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

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same and a discounted cash flow analysis.

### Derivative financial instruments

*Initial recognition and subsequent measurement*

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income.

### Inventories

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Cash and cash equivalents

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

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

### Provisions

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

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the year of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

### Income tax

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

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

**Income tax** (Continued)

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

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

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

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

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

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

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

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Government grants

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

### Revenue recognition

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

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

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

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

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Contracts for services

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

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Retirement benefits

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Pension scheme

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

### Borrowing costs

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

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

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

# 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

## Foreign currencies

These financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries and a jointly-controlled entity are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statement of comprehensive income are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the cumulative translation adjustments. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the statement of comprehensive income.

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

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

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the beginning of the comparative period.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

# 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

## Judgments (Continued)

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

## Estimates and assumptions

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2010 was approximately HK$15,684,000 (2009: HK$15,181,000). Further details are given in note 20.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### Estimates and assumptions (Continued)

*Impairment of non-financial assets (other than goodwill)*

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

*Deferred tax assets*

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

*Provision for impairment of trade and notes receivables*

The provision policy for impairment of trade and notes receivables is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of those receivables, including the credit worthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 23.

# 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

## Estimates and assumptions (Continued)

*Write-down of inventories*

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

*Provisions*

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

# 5. OPERATING SEGMENT INFORMATION

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

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

(b) Overseas – Other durable juvenile products segment, which engages in the research, design, manufacturing and selling of car seats and accessories, cribs and accessories and other children's products under the Group's own brands and third parties' brands;

(c) Domestic – Strollers and accessories segment, which engages in the sourcing and distributing strollers; and

(d) Domestic – Other durable juvenile products segment, which engages in the sourcing and distributing durable juvenile products including car seats and accessories, cribs and accessories and other children's products.

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.

## 5. OPERATING SEGMENT INFORMATION (Continued)

Intersegment sales are transacted with reference to the cost of the overseas – Strollers and accessories and overseas – other durable juvenile products segments.

**Year ended 31 December 2010**

| | Overseas HK$'000 | | | Domestic HK$'000 | | | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| | Strollers and accessories | Other durable juvenile products | Subtotal | Strollers and accessories | Other durable juvenile products | Subtotal | |
| **Segment revenue:** | | | | | | | |
| **Sales to external customers** | 1,515,270 | 1,376,237 | 2,891,507 | 309,985 | 520,416 | 830,401 | 3,721,908 |
| Intersegment sales | 141,257 | 156,172 | 297,429 | - | - | - | 297,429 |
| | | | 3,188,936 | | | 830,401 | 4,019,337 |
| **Reconciliation:** | | | | | | | |
| Elimination of intersegment sales | | | | | | | (297,429) |
| Revenue from continuing operations | | | | | | | 3,721,908 |
| Cost of sales | | | | | | | (2,979,349) |
| Other income | | | | | | | 32,851 |
| Operating costs | | | | | | | (491,507) |
| Other expenses | | | | | | | (20,593) |
| Finance income/ (costs) - net | | | | | | | (17,178) |
| **Profit before tax from continuing operations** | | | | | | | 246,132 |

## 5. OPERATING SEGMENT INFORMATION (Continued)

**Year ended 31 December 2009**

| | Overseas HK$'000 | | | Domestic HK$'000 | | | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| | Strollers and accessories | Other durable juvenile products | Subtotal | Strollers and accessories | Other durable juvenile products | Subtotal | |
| **Segment revenue:** | | | | | | | |
| **Sales to external customers** | 1,345,884 | 956,222 | 2,302,106 | 263,388 | 466,741 | 730,129 | 3,032,235 |
| Intersegment sales | 169,719 | 145,149 | 314,868 | - | - | - | 314,868 |
| | | | 2,616,974 | | | 730,129 | 3,347,103 |
| **Reconciliation:** | | | | | | | |
| Elimination of intersegment sales | | | | | | | (314,868) |
| Revenue from continuing operations | | | | | | | 3,032,235 |
| Cost of sales | | | | | | | (2,463,360) |
| Other income | | | | | | | 25,105 |
| Operating costs | | | | | | | (356,109) |
| Other expenses | | | | | | | (20,046) |
| Finance income/ (costs) - net | | | | | | | (13,042) |
| **Profit before tax from continuing operations** | | | | | | | 204,783 |

# 5. OPERATING SEGMENT INFORMATION (Continued)

## Geographical information

### (a) Revenue from external customers

| | European Union HK$'000 | North America HK$'000 | Mainland China HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | **1,110,955** | **1,287,615** | **830,401** | **492,937** | **3,721,908** |
| **Year ended 31 December 2009** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 928,419 | 1,000,194 | 730,129 | 373,493 | 3,032,235 |

The revenue information from continuing operations above is based on the location of the customers.

### (b) Non-current assets

Since all non-current assets, other than deferred tax assets, from continuing operations are located in Mainland China, no geographical information for non-current assets is presented.

## Information about a major customer

Details of sales to a major customer accounting for 10% or more of total net sales of the Group are as follows:

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| **Continuing operations:** | **1,579,842** | 1,524,322 |

The above sales to a customer was derived from sales by the overseas – strollers and accessories and overseas – other durable juvenile products segments, including sales to a group of entities which are known to be under common control with that customer.

## 6. REVENUE AND OTHER INCOME

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| **Revenue:** | | |
| Sales of goods | **3,721,908** | 3,032,235 |
| **Other income:** | | |
| Government grants (note (a)) | **7,733** | 5,706 |
| Gain on sales of raw materials | **9,708** | 6,051 |
| Gain on sales of scrap materials | **7,424** | 7,534 |
| Compensation income (note (b)) | **4,711** | 2,757 |
| Service fee income (note (c)) | **1,508** | 1,924 |
| Others | **1,767** | 1,133 |
| Total | **32,851** | 25,105 |

*Note (a):* *The amount represents subsidies received from local government authorities in connection with certain financial support to local business enterprises for the purpose of encouraging the development of the export sector. These government subsidies mainly comprised subsidies for export activities, subsidies for development, and other miscellaneous subsidies and incentives for various purposes. The amount of such 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 were no unfulfilled conditions or contingencies attaching to these grants and they were recognized in the year of receipt.*

*Note (b):* *The amount represents 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 factory administrative services provided to a related party.*

## 7. FINANCE INCOME

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| **Continuing operations:** | | |
| – Interest income on bank deposits | **1,163** | 1,373 |

## 8. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| **Continuing operations:** | | |
| – Interest expense on bank loans and borrowings | **18,341** | 14,415 |

## 9. PROFIT BEFORE TAX

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Cost of inventories recognized as expenses | **3,085,972** | 2,573,906 |
| Cost of service provided | **877** | 1,095 |
| Depreciation of property, plant and equipment | **69,445** | 60,766 |
| Amortization of intangible assets | **2,827** | 3,300 |
| Amortization of land lease payment | **1,798** | 876 |
| Research and development costs ("R&D") | **79,421** | 55,336 |
| Lease payments under operating leases in respect of properties | **29,471** | 24,997 |
| Auditors' remuneration (note (a)) | **7,490** | 1,873 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages, salaries and other benefits | **560,198** | 487,209 |
| Pension scheme contributions | **20,506** | 13,295 |
| | **580,704** | 500,504 |
| Net foreign exchange losses | **13,321** | 192 |
| Provision for impairment of receivables | **604** | 3,392 |
| Write-down of inventories | **62** | 8,092 |
| Product warranty | **11,968** | 19,449 |
| Fair value loss on derivative financial instruments | **2,885** | 175 |
| Loss on disposal of items of property, plant and equipment | **634** | 1,427 |
| Bank interest income | **1,163** | 1,373 |

*note (a):* *For the year ended 31 December 2010, apart from the provisions of annual audit services, the Group's external auditors, Ernst&Young, were also the reporting accountants of the Company in relation to the listing of the Company's shares on the Stock Exchange. The total fee paid in respect of reporting accountants' work was HK$ 5,741,000, of which, HK$ 4,393,000 was charged to the Group's profit before tax from continuing operations for the year ended 31 December 2010.*

## 10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Fees | **114** | 1,586 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **10,673** | 6,624 |
| Performance related bonuses | **2,159** | 1,702 |
| Pension scheme contributions | **8** | – |
| | **12,840** | 8,326 |
| | **12,954** | 9,912 |

### (a) Independent non-executive directors

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

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| LONG Yongtu | **–** | – |
| BRUCE Iain Ferguson | **36** | – |
| SHI Xiaoguang | **30** | – |
| | **66** | – |

There were no other emoluments payable to the independent non-executive directors in 2010 (2009: nil).

## 10. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors and non-executive directors

| | Fees (HK$'000) | Salaries, allowances and benefits in kind (HK$'000) | Performance related bonuses (HK$'000) | Pension scheme contributions (HK$'000) | Total remuneration (HK$'000) |
|---|---|---|---|---|---|
| **2010** | | | | | |
| ***Executive directors:*** | | | | | |
| SONG Zhenghuan | – | 5,334 | – | – | 5,334 |
| FU Jingqiu* | – | 2,394 | – | – | 2,394 |
| WANG Haiye* | – | 2,945 | 2,159 | 8 | 5,112 |
| | – | 10,673 | 2,159 | 8 | 12,840 |
| ***Non-executive directors:*** | | | | | |
| GRADEL, Christopher Marcus | 24 | – | – | – | 24 |
| CHIANG Yun | 24 | – | – | – | 24 |
| | 48 | – | – | – | 48 |

* *FU Jingqiu resigned as director and WANG Haiye was appointed as director on 19 August 2010.*

## 10. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors and non-executive directors (Continued)

| | Fees (HK$'000) | Salaries, allowances and benefits in kind (HK$'000) | Performance related bonuses (HK$'000) | Pension scheme contributions (HK$'000) | Total remuneration (HK$'000) |
|---|---|---|---|---|---|
| 2009 | | | | | |
| *Executive directors:* | | | | | |
| SONG Zhenghuan | 1,080 | 3,307 | – | – | 4,387 |
| FU Jingqiu | 506 | 3,317 | 1,702 | – | 5,525 |
| | 1,586 | 6,624 | 1,702 | – | 9,912 |
| *Non-executive directors:* | | | | | |
| GRADEL, Christopher Marcus | – | – | – | – | – |
| CHIANG Yun | – | – | – | – | – |
| | – | – | – | – | – |

There was no arrangement under which a director waived or agreed to waive any remuneration in 2010 (2009: nil).

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2009: two), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2009: three) non-director, highest paid employees for the year are as follows:

| | **2010** **(HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Salaries, allowances and benefits in kind | **7,863** | 7,303 |
| Performance related bonuses | **5,450** | 5,578 |
| Pension scheme contributions | **58** | 5 |
| | **13,371** | 12,886 |

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

| | **Number of employees** **2010** | 2009 |
|---|---|---|
| HK$ 3,000,001 to HK$ 3,500,000 | **1** | 2 |
| HK$ 3,500,001 to HK$ 4,000,000 | **–** | – |
| HK$ 4,000,001 to HK$ 4,500,000 | **1** | – |
| HK$ 4,500,001 to HK$ 5,000,000 | **–** | – |
| HK$ 5,000,001 to HK$ 5,500,000 | **–** | – |
| HK$ 5,500,001 to HK$ 6,000,000 | **1** | 1 |
| | **3** | 3 |

During the year ended 31 December 2010, no directors, or any of the non-directors, highest paid employees waived or agreed to waive any remuneration (2009: none). None of the directors, or any of the non-directors, highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2009: none).

## 12. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In 2009, no Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong.

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at a rate of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the year. The state income tax rates are 8.5% and 9.5% in the respective states where the subsidiary operates, and the federal income tax rate ranges from 15% to 39% on a progressive basis.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at the rate ranging from 20.7% to 35.3% on a progressive basis. In 2009, no income tax in Japan has been provided as there was no taxable income.

The Group's subsidiaries registered in Netherland are subject to income tax based on the taxable income at the rate ranging from 20% to 25.5% on a progressive basis. In 2009, no income tax in Netherland has been provided as there was no taxable income.

All of the Group's subsidiaries registered in the People's Republic of China ("PRC") and only have operations in Mainland China are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. On 16 March 2007, the PRC government promulgated Law of the PRC on Enterprise Income Tax (the "EIT Law"), which was effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the EIT Law. The EIT Law and the Implementation Regulation changed the tax rate of the PRC enterprise from 33% to 25% from 1 January 2008 onwards.

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in charge in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC"), is qualified as a "High and New Technology Enterprise" and was subject to a preferential tax rate of 15% from 2008 to 2010.

## 12. INCOME TAX (Continued)

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

| | Group | |
|---|---|---|
| | **2010** **(HK$'000)** | 2009 (HK$'000) |
| Current income tax - PRC | | |
| –Income tax for the year | **43,361** | 38,189 |
| –Overprovision in prior years | **-** | (769) |
| | **43,361** | 37,420 |
| United States state and federal income tax | **226** | 2,004 |
| Japan income tax | **14** | – |
| Netherland income tax | **71** | – |
| Hong Kong profits tax | **2,495** | – |
| Deferred income tax (note 30) | **(3,225)** | 997 |
| Income tax expense reported in the statement of comprehensive income | **42,942** | 40,421 |

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

| | Group | |
|---|---|---|
| | **2010** **(HK$'000)** | 2009 (HK$'000) |
| Profit before tax from continuing operations | **246,132** | 204,783 |
| Expected income tax on profit before tax, calculated at the applicable tax rate concerned @ 25% | **61,533** | 51,196 |
| Lower tax rate for specific provision | **(26,555)** | (19,863) |
| Tax loss utilized | **(1,317)** | – |
| Tax losses not recognized for deferred tax assets | **-** | 1,307 |
| Deferred tax liability on withholding tax | **8,349** | 9,979 |
| Tax credit arising from additional deduction of R&D expenditures of a PRC subsidiary | **(5,117)** | (3,542) |
| Non-taxable income | **(2,728)** | – |
| Overprovision in prior years | **-** | (769) |
| Non-deductible expenses | **8,777** | 2,113 |
| Income tax expense | **42,942** | 40,421 |

## 13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of HK$96,962,000 (2009: loss of HK$13,169,000) which has been dealt with in the financial statements of the Company (note 35(b)).

## 14. DISCONTINUED OPERATION

In 2010, one of the Group's subsidiary, GCPC, underwent a demerge exercise and a new entity, namely Goodbaby China Commercial Co., Ltd. ("GCCL"), was established to take over the domestic retail business from GCPC. In 2010, the Group disposed of its equity interests in GCCL, Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Goodbaby Online Services Co., Ltd. ("SGOL"), Richy Bright Limited ("RCBL"), MGCR and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to GBHL for a consideration of HK$287,936,000 in aggregate, resulting in a gain of HK$35,699,000 (note 33). GCCL, SHFS, SGOL, RCBL, MGCR and MGRL are mainly engaged in the domestic retail business. The disposal of the domestic retail business has been accounted for as a discontinued operation.

The results of the aforesaid discontinued operation during the year are presented below:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Revenue | **677,065** | 1,062,517 |
| Cost of sales | **(470,461)** | (748,252) |
| **Gross profit** | **206,604** | 314,265 |
| Other income | **4,546** | 3,181 |
| Selling and distribution costs | **(196,485)** | (304,816) |
| Administrative expenses | **(68,499)** | (110,415) |
| Other expenses | **208** | (4,904) |
| **Operating loss** | **(53,626)** | (102,689) |
| Finance income | **472** | 89 |
| Finance costs | **(6,141)** | (16,937) |
| **Loss before tax** | **(59,295)** | (119,537) |
| Income tax credit | **7,058** | 14,883 |
| **Loss for the year** | **(52,237)** | (104,654) |

## 14. DISCONTINUED OPERATION (Continued)

The net cash inflow/(outflow) incurred by the discontinued operation are as follows:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Operating activities | **40,075** | 21,819 |
| Investing activities | **(9,841)** | (16,039) |
| Financing activities | **(4,942)** | (16,937) |
| Net | **25,292** | (11,157) |

## 15. DIVIDENDS

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Dividend declared to the then equity holder | **406,505** | – |
| Final dividend proposed subsequent to the reporting period – HK5 cents per ordinary share | **50,000** | – |
| Net | **456,505** | – |

On 31 July 2010, the Company declared a special dividend to the then equity holder of the Company amounting to HK$406,505,000 (HK$14.89 per share), of which, HK$395,135,000 was settled through the reduction in an amount due from a related party.

The final dividend proposed subsequent to the reporting period has not been recognized as a liability at the end of the reporting period and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 819,926,027 in issue during the year ended 31 December 2010 (2009: 799,000,000), as adjusted to reflect the capitalization issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 and 2010 includes the pro forma issued share capital of the Company of 799,000,000 shares, comprising:

i) 27,300,000 issued and fully paid (note 34(i)); and

ii) the capitalization issue of 771,700,000 shares (note 34(iii)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 20,926,027 shares issued upon the listing of the Company's shares on the Stock Exchange on 24 November 2010 in addition to the aforementioned 799,000,000 ordinary shares.

The calculations of basic earnings per share are based on:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| **Earnings** | | |
| Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | | |
| From continuing operations | **200,746** | 162,809 |
| From a discontinued operation | **(49,821)** | (100,064) |
| | **150,925** | 62,745 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **819,926,027** | 799,000,000 |

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2010 as the group had no potentially dilutive ordinary shares in issue during the year.

## 17. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings (HK$'000) | Plant and machinery (HK$'000) | Motor vehicles (HK$'000) | Furniture and fixtures (HK$'000) | Leasehold improvements (HK$'000) | Construction in process (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 1 January 2009 | 401,685 | 419,398 | 14,213 | 55,643 | 129,379 | 19,339 | 1,039,657 |
| Additions | 2,979 | 18,866 | 447 | 10,548 | 36,190 | 15,486 | 84,516 |
| Transfers | 6,477 | 1,155 | - | 1,011 | 4,799 | (13,442) | - |
| Disposals | (2,534) | (7,581) | (2,609) | (3,180) | (24,699) | - | (40,603) |
| Translation adjustments | 444 | 672 | 20 | 111 | 217 | 32 | 1,496 |
| As at 31 December 2009 and 1 January 2010 | 409,051 | 432,510 | 12,071 | 64,133 | 145,886 | 21,415 | 1,085,066 |
| Additions | 12,573 | 31,077 | 2,964 | 10,877 | 25,122 | 23,275 | 105,888 |
| Transfers | 8,430 | 11,623 | - | 96 | 453 | (20,602) | - |
| Disposals | (4,652) | (7,712) | (666) | (2,642) | (1,907) | - | (17,579) |
| Disposal of a discontinued operation | (40,628) | (3,210) | (8,725) | (34,609) | (127,698) | (16,976) | (231,846) |
| Translation adjustments | 13,585 | 15,782 | 253 | 2,024 | 1,918 | 417 | 33,979 |
| As at 31 December 2010 | 398,359 | 480,070 | 5,897 | 39,879 | 43,774 | 7,529 | 975,508 |
| **Accumulated depreciation** | | | | | | | |
| As at 1 January 2009 | 108,553 | 196,666 | 9,386 | 22,077 | 69,873 | - | 406,555 |
| Depreciation charge | 17,552 | 24,964 | 1,215 | 8,545 | 47,518 | - | 99,794 |
| Disposals | (437) | (5,937) | (2,348) | (2,124) | (22,141) | - | (32,987) |
| Translation adjustments | 185 | 324 | 14 | 45 | 131 | - | 699 |
| As at 31 December 2009 and 1 January 2010 | 125,853 | 216,017 | 8,267 | 28,543 | 95,381 | - | 474,061 |
| Depreciation charge | 18,570 | 34,993 | 807 | 13,589 | 18,340 | - | 86,299 |
| Disposals | (1,288) | (5,440) | (601) | (1,728) | (1,829) | - | (10,886) |
| Disposal of a discontinued operation | (14,823) | (1,829) | (6,178) | (20,569) | (83,341) | - | (126,740) |
| Translation adjustments | 4,118 | 8,161 | 137 | 977 | 890 | - | 14,283 |
| As at 31 December 2010 | 132,430 | 251,902 | 2,432 | 20,812 | 29,441 | - | 437,017 |
| **Net carrying amount** | | | | | | | |
| As at 31 December 2010 | 265,929 | 228,168 | 3,465 | 19,067 | 14,333 | 7,529 | 538,491 |
| As at 31 December 2009 | 283,198 | 216,493 | 3,804 | 35,590 | 50,505 | 21,415 | 611,005 |

## 18. INVESTMENT PROPERTY

| | Group |
|---|---|
| **Cost** | HK$'000 |
| As at 1 January 2009 | 19,153 |
| Translation adjustments | 29 |
| As at 31 December 2009 and 1 January 2010 | 19,182 |
| Disposals of a discontinued operation | (19,360) |
| Translation adjustments | 178 |
| As at 31 December 2010 | – |
| **Accumulated depreciation** | |
| As at 1 January 2009 | (7,624) |
| Depreciation charge | (965) |
| Translation adjustments | (13) |
| As at 31 December 2009 and 1 January 2010 | (8,602) |
| Depreciation charge | (583) |
| Disposals of a discontinued operation | 9,264 |
| Translation adjustments | (79) |
| As at 31 December 2010 | – |
| **Net carrying amount** | |
| As at 31 December 2009 | 10,580 |
| As at 31 December 2010 | – |

The fair values of the Group's investment property were HK$20,726,000 as at 31 December 2009, according to the valuation performed by independent professionally qualified valuers, on an open market basis.

## 19. PREPAID LAND LEASE PAYMENTS

### Group

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| At beginning of year | **65,694** | 65,581 |
| Additions | **9,139** | 1,818 |
| Amortization | **(1,918)** | (1,810) |
| Disposal of a discontinued operation | **(8,047)** | – |
| Translation adjustments | **2,250** | 105 |
| At end of year | **67,118** | 65,694 |

## 20. INTANGIBLE ASSETS

### Group

| | Goodwill (HK$'000) | Trademarks (HK$'000) | Computer software (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January 2009 | 15,157 | 29,711 | 16,537 | 61,405 |
| Additions | – | 512 | 2,541 | 3,053 |
| Translation adjustments | 24 | 143 | 106 | 273 |
| As at 31 December 2009 and 1 January 2010 | 15,181 | 30,366 | 19,184 | 64,731 |
| Additions | – | 5,104 | 1,558 | 6,662 |
| Disposal of a discontinued operation | – | (10,494) | (17,170) | (27,664) |
| Translation adjustments | 503 | 792 | 24 | 1,319 |
| As at 31 December 2010 | 15,684 | 25,768 | 3,596 | 45,048 |

## 20. INTANGIBLE ASSETS (Continued)

### Group (Continued)

| | Goodwill (HK$'000) | Trademarks (HK$'000) | Computer software (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|
| **Accumulated amortization** | | | | |
| As at 1 January 2009 | – | (12,068) | (10,250) | (22,318) |
| Amortization charge | – | (2,859) | (2,907) | (5,766) |
| Translation adjustments | – | (21) | (93) | (114) |
| As at 31 December 2009 and 1 January 2010 | – | (14,948) | (13,250) | (28,198) |
| Amortization charge | – | (2,765) | (1,864) | (4,629) |
| Disposal of a discontinued operation | – | 5,522 | 13,365 | 18,887 |
| Translation adjustments | – | (380) | 108 | (272) |
| As at 31 December 2010 | – | (12,571) | (1,641) | (14,212) |
| **Accumulated impairment** | | | | |
| As at1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010 | – | – | – | – |
| **Net carrying amount** | | | | |
| As at 31 December 2009 | 15,181 | 15,418 | 5,934 | 36,533 |
| As at 31 December 2010 | 15,684 | 13,197 | 1,955 | 30,836 |

## 20. INTANGIBLE ASSETS (Continued)

### Group (Continued)

Goodwill arose on acquisitions of subsidiaries in prior years. Goodwill is allocated to the following cash-generating unit ("CGU") identified:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Manufacturing and exporting of stroller related products | **15,684** | 15,181 |

The recoverable amount of the CGU is determined based on value in use calculations. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to the cash flow projections as at 31 December 2010 are 12% (2009: 12%). No growth has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the above cash-generating unit for each reporting date. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The value assigned to key assumptions is consistent with external information sources.

### Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of each of the cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Forward currency contracts - liabilities | **2,885** | – |

The Group uses forward currency contracts to manage some of its transaction exposures. These forward currency contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, which are generally two to twelve months.

The carrying amount of derivative financial instruments approximates to their fair value. The fair value of derivative financial instruments was calculated based on a forward pricing model, using present value calculations. The model incorporates various inputs including the foreign exchange contract rates and forward rates, and the forward rate curves.

## 22. INVENTORIES

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Raw materials | **169,067** | 131,869 |
| Work in progress | **84,491** | 51,737 |
| Finished goods | **317,751** | 627,525 |
| | **571,309** | 811,131 |

## 23. TRADE AND NOTES RECEIVABLES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **(HK$'000)** | (HK$'000) |
| Trade receivables | **493,714** | 584,481 |
| Notes receivable | **13,026** | 7,983 |
| | **506,740** | 592,464 |
| Impairment of the trade receivables | **(429)** | (6,477) |
| | **506,311** | 585,987 |

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 receivable were all aged within six months and were neither past due nor impaired.

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **(HK$'000)** | (HK$'000) |
| Within 3 months | **479,280** | 550,534 |
| 3 to 6 months | **9,261** | 24,287 |
| 6 months to 1 year | **4,584** | 2,744 |
| Over 1 year | **160** | 439 |
| | **493,285** | 578,004 |

## 23. TRADE AND NOTES RECEIVABLES (Continued)

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| At beginning of year | **6,477** | 2,608 |
| (Reversal of impairment)/impairment for the year | **(620)** | 4,963 |
| Amounts written off | **(5,288)** | (1,094) |
| Disposal of a discontinued operation | **(140)** | – |
| At end of year | **429** | 6,477 |

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Neither past due nor impaired | **457,264** | 545,263 |
| Less than 1 month past due | **24,041** | 20,158 |
| 1 to 2 months past due | **7,300** | 6,797 |
| 2 to 3 months past due | **1,953** | 3,045 |
| Over 3 months and within 1 year past due | **2,727** | 2,741 |
| At end of year | **493,285** | 578,004 |

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

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

The carrying amounts of the trade and notes receivables approximate to their fair values due to their short term maturity.

## 24. PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) | **2010 (HK$'000)** | 2009 (HK$'000) |
| Prepayments | **139,770** | 78,795 | **–** | – |
| Other receivables | **38,473** | 77,449 | **7,103** | 95 |
| | **178,243** | 156,244 | **7,103** | 95 |

The above balances are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amount of other receivables approximates to their fair value due to their short term maturity.

## 25. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) | **2010 (HK$'000)** | 2009 (HK$'000) |
| Cash and bank balances | **1,024,722** | 218,585 | **531,174** | 80 |
| Denominated in RMB | **110,927** | 152,698 | **–** | – |
| Denominated in HK$ | **832,403** | 3,354 | **531,122** | 80 |
| Denominated in other currencies | **81,392** | 62,533 | **52** | – |
| Cash and bank balances | **1,024,722** | 218,585 | **531,174** | 80 |

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group.

## 26. 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:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **(HK$'000)** | (HK$'000) |
| Within 3 months | **594,236** | 734,226 |
| 3 to 12 months | **87,069** | 27,473 |
| 1 to 2 years | **2,174** | 5,009 |
| 2 to 3 years | **872** | 2,208 |
| Over 3 years | **829** | 3,521 |
| | **685,180** | 772,437 |

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.

## 27. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **(HK$'000)** | (HK$'000) | **(HK$'000)** | (HK$'000) |
| Other payables | **75,613** | 132,458 | **23,497** | 25,381 |
| Advances from customers | **49,965** | 73,676 | **–** | – |
| Accruals | **140,346** | 206,121 | **–** | – |
| | **265,924** | 412,255 | **23,497** | 25,381 |

The above balances are non-interest-bearing and repayable on demand. The carrying amounts of other payables approximate to their fair values due to their short term maturity.

## 28. PROVISION

### Group

| | Product warranties (HK$'000) |
|---|---|
| Balance at 1 January 2009 | 8,880 |
| Additional provision | 19,449 |
| Amounts utilized | (10,094) |
| Translation adjustments | 2,455 |
| Balance at 31 December 2009 and 1 January 2010 | 20,690 |
| Additional provision | 11,968 |
| Amounts utilized | (9,564) |
| Translation adjustments | 828 |
| Balance at 31 December 2010 | 23,922 |

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

# 29. INTEREST-BEARING BANK BORROWINGS

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Unsecured bank loans | **4.37 - 4.86** | **2011** | **167,149** | 4.37 - 4.78 | 2010 | 56,786 |
| Bank borrowings pledged by intra-group trade receivables | **1.05 - 1.06** | **2011** | **152,441** | 1.05 - 1.06 | 2010 | 70,901 |
| **Subtotal** | | | **319,590** | | | 127,687 |
| **Non-current** | | | | | | |
| Unsecured bank loans | **4.86** | **2012** | **152,779** | 4.86 | 2012 | 374,787 |
| **Total** | | | **472,369** | | | 502,474 |

All short-term bank borrowings were obtained from third party financial institutions. As at 31 December 2010, a subsidiary had pledged trade receivables of approximately HK$167,162,000 (2009: HK$74,868,000) to secure certain of the Group's bank loans and these trade receivables had been eliminated on group level.

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Analyzed into: | | |
| Bank loans repayable: | | |
| Within one year | **319,590** | 127,687 |
| In the second year | **152,779** | – |
| In the third to fifth years, inclusive | **–** | 374,787 |
| | **472,369** | 502,474 |

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair value due to short term maturity.

The carrying amount of the Group's long term borrowings approximates to their fair value because of the floating interest rate.

# 30. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

## Deferred tax assets - Group:

| | Provision for impairment of receivables (HK$'000) | Write-down of inventories (HK$'000) | Provision (HK$'000) | Derivative financial instruments (HK$'000) | Accruals (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|---|
| As at 1 January 2009 | 362 | 1,684 | 1,410 | - | 5,817 | 9,273 |
| Credited to statement of comprehensive income (note 12) | 860 | 10 | 2,260 | - | 5,852 | 8,982 |
| Translation adjustments | 2 | 58 | 7 | - | 12 | 79 |
| As at 31 December 2009 and 1 January 2010 | 1,224 | 1,752 | 3,677 | - | 11,681 | 18,334 |
| Credited/(charged) to statement of comprehensive income (note 12) | (1,169) | 1,227 | 453 | 433 | (3,909) | (2,965) |
| Translation adjustments | 36 | 52 | 109 | - | 346 | 543 |
| As at 31 December 2010 | 91 | 3,031 | 4,239 | 433 | 8,118 | 15,912 |

## 30. DEFERRED TAX (Continued)

### Deferred tax liabilities – Group:

| | Withholding tax on undistributed profits of the PRC subsidiary (HK$'000) |
|---|---|
| At 1 January 2009 | 4,560 |
| Charged to statement of comprehensive income (note 12) | 9,979 |
| At 31 December 2009 and 1 January 2010 | 14,539 |
| Credited to statement of comprehensive income (note 12) | (6,190) |
| At 31 December 2010 | 8,349 |

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

## 30. DEFERRED TAX (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| **Deferred tax assets arising from:** | | |
| – Provision for impairment of receivables | **91** | 1,224 |
| – Write-down of inventories | **3,031** | 1,752 |
| – Provision | **4,239** | 3,677 |
| – Derivative financial instruments | **433** | – |
| – Accruals | **8,118** | 11,681 |
| | **15,912** | 18,334 |
| **Deferred tax liabilities arising from:** | | |
| – Withholding tax on undistributed earnings of the PRC subsidiary | **(8,349)** | (14,539) |
| Deferred tax assets, net | **7,563** | 3,795 |
| **Reflected in the consolidated statement of financial position:** | | |
| – Deferred tax assets | **15,912** | 18,334 |
| – Deferred tax liabilities | **(8,349)** | (14,539) |

## 30. DEFERRED TAX (Continued)

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Unused tax losses | **-** | 36,597 |
| Deductible temporary differences | **-** | 19,961 |
| | **-** | 56,558 |

The above tax losses are subject to an expiry period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilized.

At 31 December 2010, other than the amount recognized in the consolidated financial statements, deferred tax has not been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK$129,490,000 at 31 December 2010 (2009: HK$27,848,000).

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

## 31. INVESTMENTS IN SUBSIDIARIES - COMPANY

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Unlisted equity investments, at cost | **10,367** | 37,661 |
| Less: Impairment of investments | **-** | - |
| | **10,367** | 37,661 |

## 31. INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

Particulars of the Group's subsidiaries are as follows:

| Name | Place and date of incorporation/ registration | Percentage of equity interest attributable to the Company Direct | Percentage of equity interest attributable to the Company Indirect | Nominal value of issued/ registered paid-up capital | Principal activities |
|---|---|---|---|---|---|
| Goodbaby (Hong Kong) Limited ("GBHK") | Hong Kong 23 July 1999 | 100% | – | HK$1,000 | Investment holding and distribution and sale of safety belts, cloth sets, car safety seats, car components for children and infant strollers |
| RCBL ^ | BVI 20 August 2007 | 100% | – | US$1 | Investment holding |
| Turn Key Design Cooperative U.A. ("GBNH") | Netherlands 21 January 2008 | 1% | 99% | EURO100 | Investment holding |
| MGCR ^ | Hong Kong 18 May 2007 | – | 70% | HK$ 5,000,000 | Investment holding |
| Goodbaby Children's Products, Inc. ("GCPI") | The United States of America 16 May 2002 | – | 100% | US$200,000 | Distribution and sale of safety belts, cloth sets, car safety seats, car components for children and infant strollers |
| Goodbaby Child Products Co., Ltd. ("GCPC") | PRC 18 November 1994 | – | 100% | US$ 52,000,000 | Manufacturing, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles |
| SHFS^ | PRC 20 January 1998 | – | 100% | RMB 10,000,000 | Manufacturing, distribution and sale of children's clothing |
| Ningbo Goodbaby Child Products Co., Ltd. ("GCPN") | PRC 9 September 1996 | – | 85% | RMB 10,000,000 | Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs |
| SGOL^ | PRC 8 June 2000 | – | 100% | US$ 1,670,000 | Provision of internet and information technology support and maintenance services, primarily to other group companies |

# 31. INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

| Name | Place and date of incorporation/ registration | Percentage of equity interest attributable to the Company Direct | Indirect | Nominal value of issued/ registered paid-up capital | Principal activities |
|---|---|---|---|---|---|
| MGRL ^ | PRC 13 September 2007 | – | 70% | US$ 5,000,000 | Operation of maternity and parenting products retail outlets |
| PCPC | PRC 5 November 2008 | – | 100% | RMB 10,000,000 | Manufacturing, distribution and sale of dining chairs, cribs and tricycles for children |
| Goodbaby Japan Co., Ltd. ("GBJP") | Japan 5 February 2008 | – | 100% | JPY3,000,000 | Research and development ("R&D") services, preliminary product design |
| Turn Key Design B.V. ("GBNE") | Netherlands 24 January 2008 | – | 100% | EURO18,000 | R&D services, preliminary product design |

^: *Those entities were disposed of in 2010 pursuant the Reorganization and were no longer the Group's subsidiaries as at 31 December 2010.*

Prior the listing of the Company's shares on the Stock Exchange, the Company pledged 25% equity interests in GCPN and 100% equity interests in GCPC for the borrowings of GBHL from Taipei Fubon Commercial Bank Company Limited ("Fubon"). The above pledge of equity interests was released on 24 November 2010 upon the repayment of borrowings from Fubon by GBHL. Details are included in note 38(c)(ii).

(i) GCPC and PCPC are wholly foreign owned enterprises established in the PRC.

(ii) GCPN is a sino-foreign equity joint venture established in the PRC.

# 32. INVESTMENTS IN JOINTLY-CONTROLLED ENTITY

Particulars of the jointly-controlled entity are as follows:

| Name | Particulars of issued shares held | Place of registration | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Kunshan Goodbaby Tommee Tippee Child Products Co., Ltd. ("GCTP") | US$300,000 | PRC | 51% | 50% | 51% | Distribution and sale of milk bottles, tableware and toys |

GCTP is accounted for as a jointly-controlled entity because according to the joint venture contract, the Group can only appoint half of the board members of GCTP.

The following table illustrates the summarized financial information of the Group's jointly-controlled entity:

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | **1,061** | 982 |
| Non-current assets | **3** | 4 |
| Current liabilities | **(49)** | (29) |
| Net assets | **1,015** | 957 |
| Share of the jointly-controlled entity's results: | | |
| Revenue | **293** | 383 |
| Cost of sales | **(252)** | (258) |
| | **41** | 125 |
| Total operating expenses | **(16)** | (238) |
| Tax | **–** | – |
| Profit/(loss) after tax | **25** | (113) |

## 33. DISPOSAL OF SUBSIDIARIES/OPERATIONS

As detailed in note 14, the Group disposed of certain subsidiaries/operations to a related party during the year.

| | 2010 (HK$'000) |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 105,106 |
| Investment property | 10,096 |
| Intangible assets | 8,777 |
| Prepaid land lease payments | 8,047 |
| Inventories | 412,012 |
| Trade and other receivables | 125,790 |
| Amounts due from related parties | 502,683 |
| Cash and cash equivalents | 37,262 |
| Trade and other payables | (304,917) |
| Amounts due to related parties | (646,452) |
| Non-controlling interests | (6,167) |
| | 252,237 |
| Gain on disposal recognized as a deemed contribution directly in equity | 35,699 |
| | 287,936 |
| Satisfied by: | |
| Offsetting an amount due to a related party | 200,350 |
| Amount due from a related party | 87,586 |
| | 287,936 |

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries/operations is as follows:

| | 2010 (HK$'000) |
|---|---|
| Cash consideration | - |
| Cash and cash equivalents disposed of | (37,262) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries/operations | (37,262) |

## 34. SHARE CAPITAL

| | The Group and the Company | | | |
|---|---|---|---|---|
| | Number of shares | | Amount | |
| | **2010** | 2009 | **2010** | 2009 |
| | **('000)** | ('000) | **(HK$'000)** | (HK$'000) |
| Authorized: | | | | |
| Ordinary shares of HK$0.01 each (note (ii) below) | **50,000,000** | 39,000 | **500,000** | 390 |

Issued and fully paid:

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **('000)** | ('000) | **(HK$'000)** | (HK$'000) |
| Shares issued upon incorporation (note (i) below) | **27,300** | 27,300 | **273** | 273 |
| Capitalization issue (note (iii) below) | **771,700** | – | **7,717** | – |
| Issuance of shares by placing and public offering (note (iv) below) | **201,000** | – | **2,010** | – |
| | **1,000,000** | 27,300 | **10,000** | 273 |

*(i) The Company was incorporated in the Cayman Islands on 14 July 2000 with an authorized share capital of HK$390,000 divided into 39,000,000 ordinary shares of par value HK$0.01 each. As at 31 December 2009, 27,300,000 ordinary shares of HK$0.01 in the Company were allotted and issued to the shareholders.*

*(ii) Pursuant to the written resolution passed on 5 November 2010, the authorized share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of HK$0.01 each to HK$500,000,000 divided into 50,000,000,000 shares of HK$0.01 each by the creation of 49,961,000,000 additional shares of HK$0.01 each.*

*(iii) On 5 November 2010, the Company authorized the issuance of 771,700,000 ordinary shares of HK$0.01 each to the then shareholders of the Company in the proportion of their respective shareholdings in the Company by way of capitalization of HK$7,717,000 from share premium account upon the listing of the Company's shares on the Stock Exchange. The above shares were issued on 24 November 2010.*

*(iv) On 24 November 2010, 201,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$4.9 per share under a global offering of the Company's ordinary shares. The proceeds of HK$2,010,000 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$982,890,000, before share issuance expenses amounting to HK$58,260,000, were credited to share premium account.*

# 35. RESERVES

## (a) GROUP

The changes in the reserves of the Group during the year have been disclosed in the consolidated statement of changes in equity of the Group.

**Statutory reserve funds**

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Enterprise expansion fund

In accordance with relevant regulations and the articles of association of the Group's PRC subsidiaries, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors for the subsidiaries registered in the PRC as a foreign invested company. The percentages to be appropriated to the enterprise expansion fund are determined by the Board of Directors of the subsidiaries.

(iii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilized to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

# 35. RESERVES (Continued)

## (a) GROUP (Continued)

**Merger reserve**

As at 31 December 2010, the merger reserve represents:

i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issuance of the Company's shares to GCPC's then shareholders. The difference between the nominal value of the Company's share of the paid-up capital of GCPC and the par value of the Company's shares issued amounted to HK$108,281,000 was recognized as merger reverse;

ii) In 2007, Geoby Electric Vehicle Co., Ltd. ("GPCL") was established to take over certain operations from the Group and the net asset value of the discontinued operation over the consideration received amounting to HK$1,362,000 was recognized as a deemed distribution in the merger reserve account;

iii) As mentioned in note 2 above, the Group acquired the Wooden Products and E-car Businesses through acquiring a 100% equity interest in PCPC in June 2010 and this acquisition was accounted for using the principle of pooling of interests method. Prior to the establishment of PCPC on 5 November 2008, the Wooden Products and E-car Businesses was carried out by a fellow subsidiary, GPCL. Upon establishment, PCPC acquired all the assets and liabilities related to the Wooden Products and E-car Businesses from GPCL at their respective book value and continued the Wooden Products and E-car Businesses afterwards. Accordingly, the retained earnings of HK$11,357,000 in respect of the Wooden Products and E-car Businesses generated prior to the establishment of PCPC were capitalized as merger reserve in 2008; and

iv) In 2010, the Group disposed of its equity interests in GCCL, SHFS, SGOL, RCBL, MGCR and MGRL to GBHL (note 14) for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operation amounting to HK$35,699,000 was recognized as a deemed contribution in the merger reserve account (note 33).

## 35. RESERVES (Continued)

### (b) COMPANY

| | Share premium (HK$'000) (note (a)) | Proposed final dividend (HK$'000) | Retained earnings (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|
| As at 1 January 2009 | 255,668 | – | 185,003 | 440,671 |
| Loss for the year | – | – | (13,169) | (13,169) |
| As at 31 December 2009 and 1 January 2010 | 255,668 | – | 171,834 | 427,502 |
| Profit for the year | – | – | 96,962 | 96,962 |
| Proposed final 2010 dividend | – | 50,000 | (50,000) | – |
| Issuance of shares (note 34(iv)) | 982,890 | – | – | 982,890 |
| Capitalization issue (note 34(iii)) | (7,717) | – | – | (7,717) |
| Share issuance expenses (note 34(iv)) | (58,260) | – | – | (58,260) |
| Dividends declared (note 15) | (255,668) | – | (150,837) | (406,505) |
| As at 31 December 2010 | 916,913 | 50,000 | 67,959 | 1,034,872 |

*Note (a) Share premium as at 1 January 2009 arose from the issuance of shares to the then investors of the Company in 2001 and in 2003.*

## 36. OPERATING LEASE ARRANGEMENTS

### – Group as lessee

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Within one year | **17,268** | 47,077 |
| After one year but not more than five years | **26,453** | 55,723 |
| More than five years | **1,832** | 5,744 |
| | **45,553** | 108,544 |

## 36. OPERATING LEASE ARRANGEMENTS (Continued)

### – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's surplus office and manufacturing buildings.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | **2010** **(HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Within one year | **–** | 4,504 |
| After one year but not more than five years | **–** | – |
| | **–** | 4,504 |

## 37. COMMITMENTS

The Group had the following capital commitments as at 31 December:

| | **Group** | |
|---|---|---|
| | **2010** **(HK$'000)** | 2009 (HK$'000) |
| Contracted, but not provided for in respect of acquisition of: | | |
| Property, plant and equipment | **–** | 4,410 |

# 38. RELATED PARTY TRANSACTIONS AND BALANCES

## (a) Name and relationship

| Name of related party | Relationship with the Group |
|---|---|
| CRF Enterprise Limited ("CRF Enterprise") | One of the Company's shareholders |
| 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 |
| GBHL | Controlled by CRF Enterprise |
| GPHL | Controlled by GBHL |
| GPCL | Controlled by GBHL |
| GCCL | Controlled by GBHL |
| RCBL | Controlled by GBHL |
| FSCP | Controlled by GBHL |
| MGCR | Controlled by GBHL |
| BEHL | Controlled by GBHL |
| GCTP | Controlled by GBHL |
| Majestic Sino Ltd. ("MJSL") | Controlled by CRF Enterprise |
| ETHL | Controlled by MJSL |
| GRTC | Controlled by MJSL |
| SGCP | Controlled by MJSL |
| CRF Holdings Limited ("CRFH") | Controlled by MJSL |

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

### (b) Related party transactions

**Group**

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

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| Sales of goods to related parties (note (a)) | | |
| GCCL# | 107,949 | – |
| SGCP | 6,504 | 9,443 |
| GPCL | – | 1,275 |
| MGRL | 225 | – |
| SHFS | 259 | – |
| | 114,937 | 10,718 |
| Sales of raw materials to related parties (note (a)) | | |
| GPCL# | 15,380 | 17,236 |
| Sales of property, plant and equipment to related parties (note (a)) | | |
| GPCL | 546 | 1,361 |

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

### (b) Related party transactions (Continued)

**Group** (Continued)

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| Purchase of goods from related parties (note (b)) | | |
| BRKH | 3,432 | 6,357 |
| GCTP | – | 750 |
| GPCL | 6,743 | 23,359 |
| SGCP | – | 160 |
| | 10,175 | 30,626 |
| Purchase of raw materials from a related party (note (b)) | | |
| GPCL | 73 | 322 |
| Purchase of property, plant and equipment from a related party (note (b)) | | |
| GPCL | 996 | 1,844 |
| Service fee income from a related party (note (c)) | | |
| GPCL# | 1,508 | 1,924 |
| Rental income from related parties (note (c)) | | |
| SHFS | 210 | – |
| GPCL | 1,092 | 579 |
| | 1,302 | 579 |
| Rental expense to a related party (note (d)) | | |
| GGCL# | 1,352 | 2,575 |
| Dividends payable | | |
| GBHL | 406,505 | – |

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

### (b) Related party transactions (Continued)

**Group** (Continued)

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| Expenses paid on behalf of related parties (note (f)) | | |
| GPHL | – | 3 |
| BRKH | 923 | 89 |
| SGCP | – | 7,075 |
| MJSL | – | 1,803 |
| GPCL | 3,413 | 934 |
| | 4,336 | 9,904 |
| Professional service expenses charged back to related parties (note (f)) | | |
| CRF Enterprise | 3,100 | – |
| GBHL | 6,820 | – |
| | 9,920 | – |
| Expenses paid by a related party on behalf of (note (f)) | | |
| GPCL | 6,979 | – |
| Procurement paid by a related party on behalf of (note (f)) | | |
| GPCL | – | 29,464 |
| Advances to related parties (note (e)) | | |
| GGCL | – | 1,135 |
| GPHL | – | 16,244 |
| Mr. Song | – | 463 |
| Ms. Fu | – | 484 |
| GBHL | 37,227 | 69,767 |
| SGCP | 6,770 | 39,412 |
| | 43,997 | 127,505 |
| Advances from related parties (note (e)) | | |
| GGCL | – | 11,348 |

# 38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

## (b) Related party transactions (Continued)

**Group** (Continued)

*Note (a): The sales of goods, raw materials and property, plant and equipment to the related parties were made according to the prices and terms agreed between the related parties.*

*Note (b): The purchases of goods, raw materials and property, plant and equipment from the related parties were made according to the prices and terms offered by the related parties.*

*Note (c): The rental income and service fee income from related parties were received according to the prices and terms agreed between the related parties.*

*Note (d): The rental expense to a related party was made according to the prices and terms offered by the related parties.*

*Note (e): The advances from/to related parties are interest-free and repayable on demand.*

*Note (f): Expenses and procurement paid on behalf of/by the related parties and professional service expenses charged back to 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.*

## (c) Other transactions with related parties

(i) In 2010, the Group disposed of a discontinued operation to a related party. Details of which are described in notes 14 and 33. The disposal of a discontinued operation was made according to the considerations and terms agreed between the related parties.

(ii) Prior to the listing of the Company's shares on the Stock Exchange, the Company and certain subsidiaries have guaranteed the borrowings of GBHL from Fubon, secured all of their assets and pledged 25% equity interest in GCPN and 100% equity interest in GCPC to Fubon. The above guarantees and pledge of assets and equity interest were released on 24 November 2010 upon the repayment of borrowings from Fubon by GBHL.

(iii) The Group offset its amount due from GPCL with an amount due to GPCL of HK$90,042,000 in 2009.

(iv) The Group offset its amount due from GBHL with an amount due to GBHL of HK$595,485,000 in 2010.

(v) In June 2009, one subsidiary of the Group provided a guarantee to GPCL for the short term borrowing of HK$68,143,000 from a bank and the guarantee was subsequently released in June 2010 upon the repayment of the bank loan by GPCL.

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

### (d) Outstanding balances with related parties

**GROUP**

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| Amounts due from related parties | | |
| GBHL | – | 145,481 |
| GCCL | 75,550 | – |
| GPHL | – | 14,100 |
| GPCL | 1,395 | 2,811 |
| SGCP | – | 138,706 |
| BRKH | – | 1,194 |
| MJSL | – | 30,555 |
| CRFH | – | 29,284 |
| ETHL | – | 29,284 |
| Mr. Song | – | 2,905 |
| Ms. Fu | – | 1,439 |
| | 76,945 | 395,759 |

| | 2010 (HK$'000) | 2009 (HK$'000) |
|---|---|---|
| Amounts due to related parties | | |
| GGCL | – | 41,240 |
| GBHL | 446 | 66,933 |
| BEHL | – | 3,617 |
| CSAL | – | 3,741 |
| FSCP | – | 3,743 |
| GPCL | – | 91,634 |
| CRFH | 203 | 67,973 |
| ETHL | – | 67,980 |
| GRTC | – | 5,182 |
| BRKH | – | 1,778 |
| GCTP | – | 49 |
| | 649 | 353,870 |

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

### (d) Outstanding balances with related parties (Continued)

**COMPANY**

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Amounts due from related parties | | |
| CRFH | **–** | 29,284 |
| ETHL | **–** | 29,284 |
| GBHL | **–** | 145,481 |
| GPHL | **–** | 26 |
| MJSL | **–** | 28,769 |
| Total | **–** | 232,844 |
| Amounts due to related parties | | |
| GBHL | **446** | – |
| BRKH | **–** | 4 |
| CRFH | **203** | 15,416 |
| ETHL | **–** | 15,424 |
| Total | **649** | 30,844 |

The amounts due from/to related parties and balances with subsidiaries are unsecured, interest-free and repayable on demand.

### (e) Compensation of key management personnel of the Group

| | **2010 (HK$'000)** | 2009 (HK$'000) |
|---|---|---|
| Short term employee benefits | **36,762** | 31,130 |
| Post-employment benefits | **131** | 106 |
| Total compensation paid to key management personnel | **36,893** | 31,236 |

Further details of directors' remuneration are included in note 10 to the financial statements.

# 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

## GROUP

Financial assets

| **As at 31 December 2010** | **Loans and receivables (HK$'000)** |
|---|---|
| Trade and notes receivables | **506,311** |
| Financial assets included in prepayments and other receivables (note 24) | **38,473** |
| Due from related parties | **76,945** |
| Cash and cash equivalents | **1,024,722** |
| | **1,646,451** |

| As at 31 December 2009 | Loans and receivables (HK$'000) |
|---|---|
| Trade and notes receivables | 585,987 |
| Financial assets included in prepayments and other receivables (note 24) | 77,449 |
| Due from related parties | 395,759 |
| Cash and cash equivalents | 218,585 |
| | 1,277,780 |

# 39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

## GROUP (Continued)

Financial liabilities

| As at 31 December 2010 | Financial liabilities at fair value through profit or loss (HK$'000) | Financial liabilities at amortized cost (HK$'000) | Total (HK$'000) |
|---|---|---|---|
| Financial liabilities included in other payables, advances from customers and accruals (note 27) | - | 75,613 | 75,613 |
| Trade and notes payables | - | 685,180 | 685,180 |
| Interest-bearing bank borrowings | - | 472,369 | 472,369 |
| Derivative financial instruments | 2,885 | - | 2,885 |
| Due to related parties | - | 649 | 649 |
| | 2,885 | 1,233,811 | 1,236,696 |

| As at 31 December 2009 | Financial liabilities at amortized cost (HK$'000) |
|---|---|
| Financial liabilities included in other payables, advances from customers and accruals (note 27) | 132,458 |
| Trade and notes payables | 772,437 |
| Interest-bearing bank borrowings | 502,474 |
| Due to related parties | 353,870 |
| | 1,761,239 |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### COMPANY

Financial assets

| **As at 31 December 2010** | **Loans and receivables (HK$'000)** |
|---|---|
| Financial assets included in prepayments and other receivables (note 24) | **7,103** |
| Due from a subsidiary | **520,522** |
| Cash and cash equivalents | **531,174** |
| | **1,058,799** |

| As at 31 December 2009 | Loans and receivables (HK$'000) |
|---|---|
| Financial assets included in prepayments and other receivables (note 24) | 95 |
| Due from subsidiaries | 215,219 |
| Due from related parties | 232,844 |
| Cash and cash equivalents | 80 |
| | 448,238 |

# 39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

## COMPANY (Continued)

Financial liabilities

| **As at 31 December 2010** | **Financial liabilities at amortized cost (HK$'000)** |
|---|---|
| Financial liabilities included in other payables, advances from customers and accruals (note 27) | **23,497** |
| Due to a subsidiary | **148** |
| Due to related parties | **649** |
| | **24,294** |

| As at 31 December 2009 | Financial liabilities at amortized cost (HK$'000) |
|---|---|
| Financial liabilities included in other payables, advances from customers and accruals (note 27) | 25,381 |
| Due to a subsidiary | 1,899 |
| Due to related parties | 30,844 |
| | 58,124 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

### Liabilities measured at fair value

| | 31 December 2010 (HK$'000) | Level 1 (HK$'000) | Level 2 (HK$'000) | Level 3 (HK$'000) |
|---|---|---|---|---|
| Foreign exchange forward contracts | 2,885 | – | 2,885 | – |

As at 31 December 2009, the Group had no unexpired foreign exchange forward contracts.

During the year, 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 (2009: none).

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank borrowings, trade and notes payables, other payables and amounts due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial investments such as trade and notes receivables, other receivables, cash and cash equivalents and amounts due from related parties, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout the year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarized below.

# 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rate and terms of repayment of borrowings are disclosed in note 29.

The Group has not used any interest swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

A reasonably possible change by 100 basis points in the interest rate with all other variables held constant has no material impact on the Group's profit before tax (through the impact on floating rate borrowings ) and equity other than retained earnings.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposure. Such exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group enters into forward exchange contracts in order to manage this exposure.

The currency other than the operating units' functional currencies, which units with significant transactional currency exposure is US dollar. The Group's exposure to foreign currency changes for all other currencies is not material. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar ("US$") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Foreign currency risk (Continued)

| | Increase/ decrease in US$ rate | Increase/ (decrease) in profit before tax (HK$'000) |
|---|---|---|
| **Year ended 31 December 2010** | | |
| If US$ strengthens against RMB | +5% | (4,972) |
| If US$ weakens against RMB | -5% | 4,972 |
| **Year ended 31 December 2009** | | |
| If US$ strengthens against RMB | +5% | (1,812) |
| If US$ weakens against RMB | -5% | 1,812 |

The effect on the profit before tax is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in US$, where the functional currency of the operating unit is a currency other than the US$. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

A reasonably possible change by 5% in the US$ exchange rate has no impact on the Group's equity other than retained earnings.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has a significant concentration of customers and credit risk in North America and Europe. In view of the good credit histories of these customers, no significant default occurred in the year.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables and amounts due from related parties, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

# 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

## GROUP

The tables below summarize the maturity profile of the Group's financial liabilities at the end of each reporting period based on contractual undiscounted payments.

| | On demand (HK$'000) | Less than 3 months (HK$'000) | 3 to 12 months (HK$'000) | 1 to 5 years (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Interest-bearing loans and borrowings | - | 270,382 | 58,012 | 156,780 | 485,174 |
| Trade and notes payables | 201,233 | 483,947 | - | - | 685,180 |
| Other payables | 75,613 | - | - | - | 75,613 |
| Derivative financial instruments | - | - | 2,885 | - | 2,885 |
| Amounts due to related parties | 649 | - | - | - | 649 |
| | 277,495 | 754,329 | 60,897 | 156,780 | 1,249,501 |

| | On demand (HK$'000) | Less than 3 months (HK$'000) | 3 to 12 months (HK$'000) | 1 to 5 years (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|
| **31 December 2009** | | | | | |
| Interest-bearing loans and borrowings | - | 5,228 | 142,179 | 401,521 | 548,928 |
| Trade and notes payables | 222,480 | 549,957 | - | - | 772,437 |
| Other payables | 132,458 | - | - | - | 132,458 |
| Amounts due to related parties | 353,870 | - | - | - | 353,870 |
| | 708,808 | 555,185 | 142,179 | 401,521 | 1,807,693 |

# 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## COMPANY

The tables below summarize the maturity profile of the Company's financial liabilities at the end of each reporting period based on contractual undiscounted payments.

| | On demand (HK$'000) | Less than 3 months (HK$'000) | 3 to 12 months (HK$'000) | 1 to 5 years (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Other payables | **23,497** | **-** | **-** | **-** | **23,497** |
| Amounts due to a subsidiary | **148** | **-** | **-** | **-** | **148** |
| Amounts due to related parties | **649** | **-** | **-** | **-** | **649** |
| | **24,294** | **-** | **-** | **-** | **24,294** |

| | On demand (HK$'000) | Less than 3 months (HK$'000) | 3 to 12 months (HK$'000) | 1 to 5 years (HK$'000) | Total (HK$'000) |
|---|---|---|---|---|---|
| **31 December 2009** | | | | | |
| Other payables | 25,381 | – | – | – | 25,381 |
| Amounts due to a subsidiary | 1,899 | – | – | – | 1,899 |
| Amounts due to related parties | 30,844 | – | – | – | 30,844 |
| | 58,124 | – | – | – | 58,124 |

## Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes, within net debt, interest-bearing loans and borrowings, trade and other payables, amounts due to related parties less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

# 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## Capital management (Continued)

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

| | Group | |
|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) |
| Trade and notes payables | **685,180** | 772,437 |
| Other payables, advances from customers and accruals | **265,924** | 412,255 |
| Interest-bearing loans and borrowings | **472,369** | 502,474 |
| Amounts due to related parties | **649** | 353,870 |
| Less: Cash and cash equivalents | **(1,024,722)** | (218,585) |
| Net debt | **399,400** | 1,822,451 |
| Equity attributable to owners of the parent | **1,515,099** | 793,394 |
| Capital and net debt | **1,914,499** | 2,615,845 |
| Gearing ratio | **21%** | 70% |

# 42. MAJOR NON-CASH TRANSACTIONS

The Group offset its amount due from with amount due to certain related parties amounting to HK$595,485,000 in 2010 (2009: HK$90,042,000), all of which did not result in any cash flows.

# 43. EVENT AFTER THE REPORTING PERIOD

On 18 March 2011, the board of directors of the Company proposed a final dividend of HK$0.05 per ordinary share totaling approximately HK$50,000,000 for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 15).

# 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 18 March 2011.

# FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial information and financial statements is set out below.

The summary below does not form part of the audited financial statements.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 |
| | **(HK$'000)** | (HK$'000) | (HK$'000) | (HK$'000) |
| **Results** | | | | |
| **Continuing Operations** | | | | |
| Revenue | **3,721,908** | 3,032,235 | 3,266,191 | 2,586,476 |
| Cost of sales | **(2,979,349)** | (2,463,360) | (2,668,916) | (2,159,362) |
| **Gross profit** | **742,559** | 568,875 | 597,275 | 427,114 |
| Other income | **32,851** | 25,105 | 37,313 | 42,797 |
| Selling and distribution costs | **(246,002)** | (180,115) | (188,873) | (147,689) |
| Administrative expenses | **(245,505)** | (175,994) | (155,837) | (129,635) |
| Other expenses | **(20,593)** | (20,046) | (54,521) | (9,896) |
| **Operating profit** | **263,310** | 217,825 | 235,357 | 182,691 |
| Finance income | **1,163** | 1,373 | 1,268 | 1,493 |
| Finance costs | **(18,341)** | (14,415) | (18,950) | (12,112) |
| **Profit before tax from continuing operations** | **246,132** | 204,783 | 217,675 | 172,072 |
| Income tax expense | **(42,942)** | (40,421) | (44,141) | (9,873) |
| **Profit for the year from continuing operations** | **203,190** | 164,362 | 173,534 | 162,199 |
| **Discontinued operations** | | | | |
| Loss after tax for the year from discontinued operations | **(52,237)** | (104,654) | (173,729) | (51,428) |
| **Profit/(loss) for the year** | **150,953** | 59,708 | (195) | 110,771 |

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) | 2008 (HK$'000) | 2007 (HK$'000) |
| Attributable to: | | | | |
| Owners of the parent | **150,925** | 62,745 | 2,480 | 109,378 |
| Non-controlling interests | **28** | (3,037) | (2,675) | 1,393 |
| | **150,953** | 59,708 | (195) | 110,771 |

**Assets, liabilities and non-controlling interests**

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2010 (HK$'000)** | 2009 (HK$'000) | 2008 (HK$'000) | 2007 (HK$'000) |
| Total assets | **3,009,887** | 2,909,852 | 2,822,194 | 2,202,292 |
| Total liabilities | **(1,469,010)** | (2,085,439) | (2,063,260) | (1,484,857) |
| Non-controlling interests | **(25,778)** | (31,019) | (29,663) | (30,036) |
| | **1,515,099** | 793,394 | 729,271 | 687,399 |

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