Goodbaby
International

Goodbaby International Holdings Limited
Stock Code 1086

2016 ANNUAL REPORT

Goodbaby

International

gb cybex evenflo ROLLPLAY


the
cybex


cybex


LUX BLACK


evenflo


cybex
PLATINUM


gb


cybex
BORN TO MOVE
the MIOS
ONE


cybex

Goodbaby International

CONTENT

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. SONG Zhenghuan *(Chairman)*
Mr. Martin POS *(Chief Executive Officer)*
Mr. LIU Tongyou *(appointed on 21 February 2017)*
Mr. Michael Nan QU
Mr. WANG Haiye
Mr. Jan REZAB *(appointed on 25 July 2016)*

NON-EXECUTIVE DIRECTOR

Mr. HO Kwok Yin, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Iain Ferguson BRUCE
Ms. CHIANG Yun
Mr. SHI Xiaoguang
Mr. JIN Peng *(appointed on 21 February 2017)*

AUDIT COMMITTEE

Mr. Iain Ferguson BRUCE *(Chairman)*
Mr. SHI Xiaoguang
Ms. CHIANG Yun

NOMINATION COMMITTEE

Mr. Iain Ferguson BRUCE *(Chairman)*
Mr. SHI Xiaoguang
Ms. CHIANG Yun

REMUNERATION COMMITTEE

Mr. Iain Ferguson BRUCE *(Chairman)*
Mr. SHI Xiaoguang
Ms. CHIANG Yun

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISOR

As to Hong Kong law

Sidley Austin
39/F, Two International
Finance Centre
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

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P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE

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Kunshan City
Jiangsu Province, 215331
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

COMPANY SECRETARY

Ms. HO Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. SONG Zhenghuan
Ms. HO Siu Pik

PRINCIPAL BANKER

Bank of China, Kunshan Branch

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDER:

In 2016, against the backdrop of a global economic slowdown and intense market reform, the Group entered a crucial stage for its future. Management was determined to conduct an in-depth integration and optimisation of our business and operation, and implement our "Globalisation, Fans Economy, Ecosystem and Consolidation" strategy. Over the course of the year, we made significant progress, strengthened our global leadership position and established a solid foundation for the Group's further development and sustainable growth.

WE OPTIMISED OUR BUSINESS STRUCTURE AND IMPROVED OUR BUSINESS QUALITY.

In 2016, we achieved a revenue of HK$6,238.2 million, which is among the best in the global industry. Meanwhile, revenue from our own brands reached 77.9% of our total revenue, up from 73.0% in 2015. Our gross margin significantly increased to 33.8% from 29.5% in 2015.

WE ACHIEVED REMARKABLE RESULTS IN DEVELOPING OUR BRANDS.

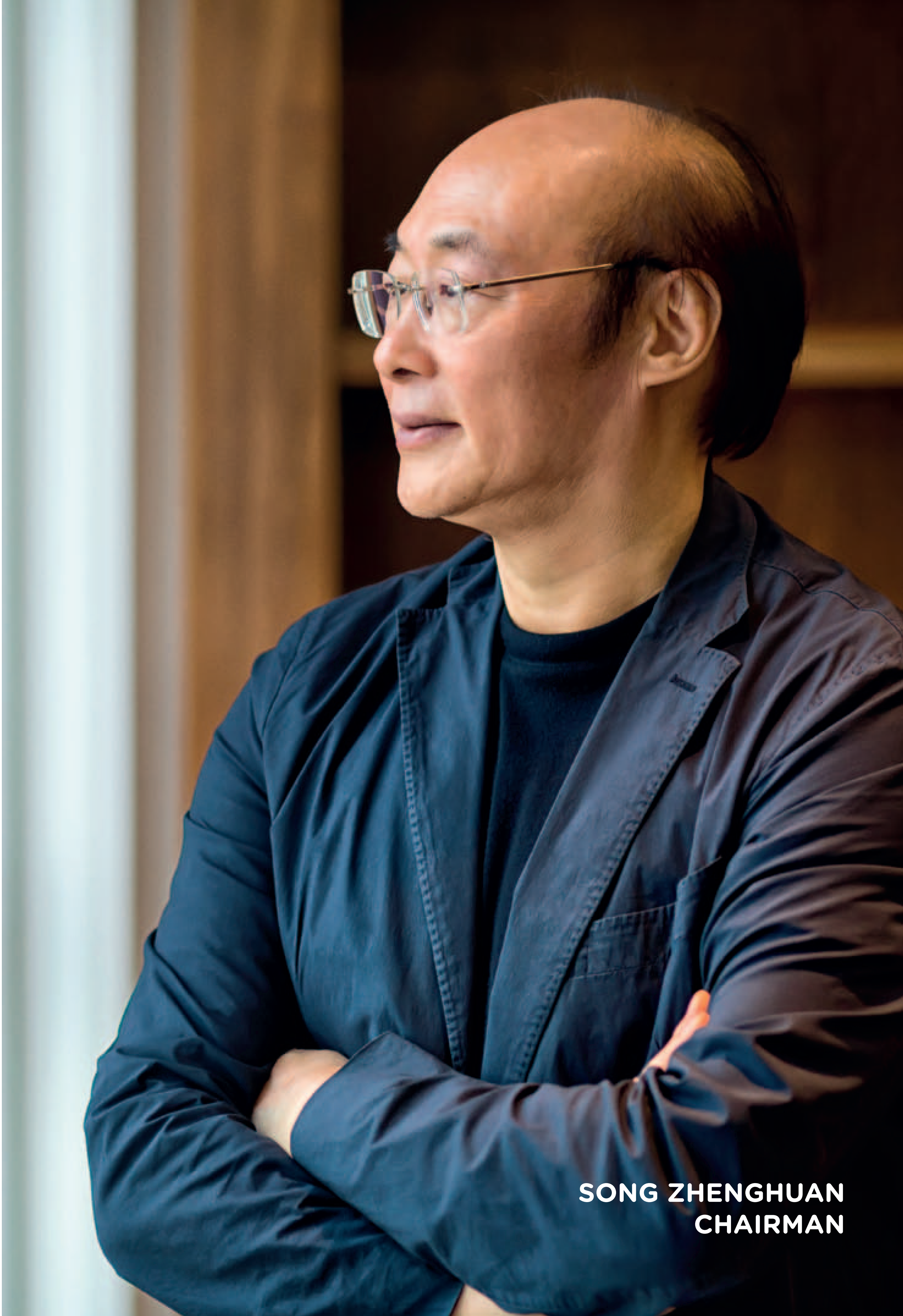
We streamlined and optimised our own brands' portfolios by focusing on our strategic brands including gb, Cybex, Evenflo and Rollplay, and tactical brands including Happy Dino, CBX and Urbini. We planned ahead on this basis. We accelerated brand building, focused on keynotes, increased investment, upgraded brand image, conducted content marketing programs and enhanced our brands' value. We effectively covered our target market segments with improved collaboration among our brands, and substantially strengthened our leadership position in the global market.

WE LAUNCHED CUTTING-EDGE PRODUCTS LEADING INDUSTRY INNOVATION.

In 2016, we continued to adopt our innovation-driven strategy and strengthened our research and development ("R&D") by optimising functions and processes across our seven worldwide R&D centers. We enhanced investment to eliminate bottlenecks. We made breakthroughs in product innovation, design, technology and materials, and saw remarkable results. Our product Series 6, 7 and 8 of the "high-speed" car seat, POCKIT 2 PLUS, and the user-friendly Mios stroller have set new industry standards and influenced market trends. We obtained 455 patents and received 3 Red Dot International Design Awards, 1 iF Design Award and 1 China Industrial Design Gold Award in 2016.

WE HAVE REINFORCED OUR VOICE IN ESTABLISHING INTERNATIONAL STANDARDS.

With more than 20 years of experience in durable juvenile product safety standard research, and more than 10 years of experience establishing international standards, and supported by our world-class testing centre, we have led or participated in the creation of 82 national standards in China, and 104 standards in Europe, America and Japan. 7 of these Chinese national standards and 28 of these overseas standards were established in 2016. The Company was approved by the International Organization for Standardization (ISO) to establish the Co-Secretariat for the ISO/PC 310 Wheeled Child Conveyances in 2016. This tasks us with leading experts from ISO member countries to develop new international product safety standards for wheeled child conveyances.


SONG ZHENGHUAN
CHAIRMAN

WE ENHANCED OUR GLOBAL MANAGEMENT SYSTEM.

In 2016, with further integration and optimisation, our global management organisation evolved. We solidified our organisation by establishing a triangular management system, with a central management platform empowering each department and business unit. We integrated our organisations in three mother markets: Europe, the US and China. We enhanced our leadership team, with the appointment of Mr. Martin Pos as Group CEO, and outstanding talented individuals like Mr. John Chamberlain, Mr. Johannes Schlamminger and Mr. Tse Shing Fung filling other key positions. The new structure is already gaining commercial momentum through a brand-driven, vertically integrated business model.

WE TURNED AROUND OUR SALES IN CHINA.

During the year, we successfully completed the reorganization and optimization of our channels and upgraded of our brands in the China market. Following a significant downturn in the first half of the year, we grew our China business in the second half of the year by 10.3% in terms of RMB, narrowing the decrease to 8.9% for the whole year. Growth momentum was significant, and the trend is stable and strong.

WE UPGRADED OUR MANUFACTURING CORE COMPETENCY.

The Group has five manufacturing bases in China, America and Mexico. In 2016, we reduced the production of low-profit OEM business and focused on: state-of-the-art technology; advanced manufacturing overseen by modernised management; quality assurance; competitive strengths of know-how; and rapid response, to support our world-class brands. We're gearing up for a more consumer-oriented model of intelligent manufacturing called "Consumer to Manufacture."

WE ESTABLISHED A DIGITAL TECHNOLOGY FUNCTION.

In July 2016, we employed Mr. Jan Rezab, a globally renowned internet entrepreneur, as our executive Director, to establish a big data center for the Group. The center is designed to gather, analyze and apply insights to our relationships with consumers, and incorporate internet technology into product development. Since establishing the center in Prague in November 2016, the team has undergone rapid development and is already showing promising results from the first stages of its work.

DEAR SHAREHOLDERS:

We achieved these results with your belief and support. Please accept our gratitude once again!

Looking ahead, the global consumer demand for maternity, baby and children's products has never been stronger, and will be further upgraded. To meet it, value chain of the industry needs to be integrated and this has just commenced. As we embark on a vision to establish an ecosystem that serves pregnant women, babies and toddlers all over the world, 2017-2018 will be crucial in establishing the "base" of this vision. During such period, we will begin by creating three platforms: 1) A content platform to focus on brands and products, 2) An industry platform to integrate sales, research, production and service, 3) An incubator platform to use big data, talent and capital. Our task is tough, but important!

Even though the environment is full of challenges, we are determined to grow amid them, working tirelessly towards our ambitious goal of creating value for our shareholders, our employees and our customers.

Yours sincerely,
Song Zhenghuan
Chairman

28 March 2017

Goodbaby International

MANAGEMENT DISCUSSION & ANALYSIS


MARTIN POS
CHIEF EXECUTIVE OFFICER

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

HIGHLIGHT OF THE YEAR 2016:

- We made a record year for profit and profitability even though we invested in transformation and creation of platform
- We executed our brand and channel strategy successfully
- We completed integration of our regional organization
- We successfully set up a proper management platform in place to drive and support rapid and sustainable global growth
- We completed restructure of our China market and successfully turn round our revenue from China market into fast growth trend
- We set up our digital division and have key management structure in place effectively

Following the rapid growth of our Cybex brand and the turnaround of our Evenflo brand, we continued to polish our brand-driven, one-dragon, vertically integrated business model through 2016, to ensure sustainable growth. During the year, in addition to day-to-day business and operation management, we made bold decisions to:

1. Strengthen and optimise organisational structure and leadership
2. Comprehensively review, integrate and optimise our brands and business lines
3. Fully integrate regional organisations and operations in Europe, US and China
4. Invest in digital technology

These decisions, as anticipated, resulted in the loss of certain revenue streams and increases in operating expenses, which negatively impacted our short-term financial performance. However, through these initiatives, we now have more concentrated brand and business portfolios, more focused resource allocation and substantive improvements in organisation and leadership, laying a solid foundation for future profitable and sustainable growth. We recorded revenue of approximately HK$6,238.2 million in 2016, representing an approximately 10.3% reduction from the prior year. We significantly improved our gross margin from 29.5% in 2015 to 33.8% in 2016, through our continual evolution into a brand-driven company. Our non-GAAP operating profit amounted to HK$342.7 million in 2016, representing 0.6% year-on-year increase from 2015. Our non-GAAP operating profit margin increased by 59 basis points to 5.5%. Our 2016 net income of approximately HK$212.2 million increased by approximately 4.7% over the previous year.

EXECUTIVE SUMMARY

BUSINESS DEVELOPMENTS

In 2016, while continuing to strengthen our business with blue-chip clients, we concentrated our resources on our strategic brands Cybex, gb, Evenflo and Rollplay, along with key tactical brands Happy Dino, CBX and Urbini, as well as retailers' private labels. We completed a thorough review of our brands and business lines, and conducted comprehensive optimisation and integration initiatives. These included terminating a licensed manufacturing and distribution partnership with a European brand, discontinuing our goodbaby brand, optimising our business under the Evenflo brand to further enhance profitability, integrating our Geoby brand business into Evenflo and closing a wooden OEM business and production facility located in China.

ABC kid's expo in Las Vegas.

MANAGEMENT DISCUSSION & ANALYSIS

Our own brand and private label businesses

We began seeing the effects of this new brand-focused business strategy in the second half of 2016. While we experienced a 7.2% overall revenue year-on-year decrease in the first half of the year, the second half of the year saw only a 0.3% year-on-year decrease even though we have experienced certain decrease in revenue streams due to continual brand integration and business discontinuation. Consequently, full-year revenue reduced by 3.9% from approximately HK$5,214.8 million in 2015, to HK$5,011.3 million in 2016.

Region APAC

In the China market, our new leadership team began implementing a new strategic plan. As a result, growth returned in the second half of the year, with a rate of 2.9% growth on year-on-year base, following an approximate 24.7% reduction in revenue in the first half of the year. Consequently, full-year year-on-year decline narrowed to only 14.9%, with revenue of approximately HK$ 1,156.6 million recorded in 2016. Whilst the Happy Dino brand declined, we turned around our gb Silver line, saw double-digit growth in the second half of the year and doubled our revenue from our gb Platinum line and Cybex brand. Our new leadership team business strategy is on track to support this rapid growth.

Outside China, after we have consolidated our brand portfolios and solidified our management team, we recorded a year-on-year increase of 17.2% in the second half of 2016 from approximately HK$318.0 million in 2015 to HK$372.7 million in 2016, following a decrease of 10.4% in the first half of 2016. As a result, full-year revenue increased from approximately HK$566.7 million in 2015 to approximately HK$595.5 million in 2016, representing an increase of 5.1%.

Region EMEA

Following a nearly 90% revenue growth in EUR in 2015, it became necessary to quickly expand the organisation in EMEA to support future growth. Furthermore, we appointed Mr. Johannes Schlamminger to succeed Mr. Martin Pos as CEO brand Cybex and gb when Mr. Martin Pos stepped up to Group CEO at the beginning of 2016. After a year of development, we are able to proudly announce that we successfully overcame the challenges that normally come with such rapid growth and succession. EMEA business management organisation successfully completed its rapid expansion and process optimisation along with succession of leadership. We now have a strong organisation and team supporting this rapid growth.

Our Cybex brand business saw stable development in 2016, while our newly-launched gb Platinum and gb Gold lines were well-received and recorded strong performance. Our revenue continued to grow, increased by 9.5% from approximately HK$1,258.1 million in 2015, to approximately HK$1,377.1 million in 2016.

Region Americas

Throughout 2016, we continued investing in key initiatives for profitable and sustainable long-term growth. We merged Goodbaby and Evenflo operations into one Goodbaby North American unit, and further rationalised our business portfolio. As a result, revenue generated in Americas recorded a 7.3% reduction from approximately HK$2,031.0 million in 2015 to approximately HK$1,882.1 million in 2016. During the year, we improved Evenflo profitability by optimising the Evenflo product line, investing in product development and launching new marketing campaigns to lay a solid foundation for the brand's sustainable growth. As a result, gross margin improved from 22.9% in 2015 to 25.9% in 2016, and operating profit margin increased from 3.2% in 2015 to 5.8% in 2016. As expected, the execution of the above strategy resulted in reduction of 6.4% in revenue from Evenflo brand from 2015 to approximately HK$1,680.8 million in 2016.

We recruited Mr. Jon Chamberlain as a dedicated Evenflo CEO, starting in January 2017. With his profound industry experience and outstanding achievements in the juvenile category, Mr. Chamberlain is expected to deliver higher levels of performance and further upgrade our product portfolio in Americas. Together with all other efforts made during 2016, we believe we now have a solid foundation for considerable growth of our businesses in the region going forward.

Blue Chip

We focused on supporting key Blue Chip OEM customers, while further optimising our blue chip business with the closure of our OEM wooden production facility in Kunshan, and an ancillary production facility in Hanchuan. Our business relationships with key Blue Chip customers remain stable, and we will continue close communication and cooperation with these customers going forward. Primarily driven by declines in our largest Blue Chip customer, Blue Chip revenue fell as anticipated by approximately 29.3%, from approximately HK$1,736.3 million in 2015 to approximately HK$1,226.9 million in 2016.

Product innovation creates products that transforms categories and builds brands that consumers prefer

INNOVATION AND TECHNOLOGY

As one of the world's leading juvenile products companies, we take great pride in merging world-class product design with outstanding research and development ("R&D"). We provide solutions for the modern family by engineering outstanding products with iconic aesthetics. With seven R&D centres worldwide and more than 450 employees, our R&D team is highly agile. We obtained 455 patents in 2016, and by the end of 2016, we historically obtained more than 7,500 patents in total.

To enhance our technical organisation efficiency and synergies across the regions, we combined the functions of Group Technical Services and Technologies Brands into one integrated function, called Group Technologies.

Our independent testing centre established microbiological, environmental, clothing and other testing projects and, in accordance with the chemical control requirements for our premium products, we successfully developed 287 new testing items. In 2016, we led and participated in setting or revising 21 international and 27 national standards, and received the China Standards Innovation and Contribution Award. The Company has been approved by the International Organization for Standardization (ISO) to set up the Co-Secretariat for the ISO/PC 310 Wheeled Child Conveyances. We successfully developed the EU child safety seat ECE R129 side collision technology and obtained approval from Technische Überwachungsverrein, becoming the only ECE R129 certified laboratory.

For product development and design, we received 3 Red Dot Awards, 1 iF Design Award and 1 China Industrial Design Gold Award for our designs in 2016. At the end of 2016, we held 19 Red Dot International Design Awards, 2 iF Design Awards, 2 China Excellent Industrial Design Rewards, 1 Guinness World Record and 1 China Industrial Design Gold Award.

PRODUCTION AND SUPPLY CHAIN

To create a world-class manufacturing organisation, we created the Goodbaby Excellence System, inspired by the well-known Toyota Production System. Our short-term focus is on managing labour and raw material costs, through automation targeting to reduce labour on the most repetitive activities, and optimising our supply base respectively. We implemented a value analysis/value engineering programme to provide product features at the lowest cost. This included the training of all key managers on the use of Lean Production Tools.

In 2016, we established our supply chain as a separate group function and are integrating our regional supply chains into it, accumulating and sharing expertise and creating long-term efficiency. A new tender management team was established and has already created synergies for logistic expenditures. A new global project procurement function is improving our brands' project management, commodity procurement and R&D functions. In addition, we kicked off a standardisation programme and established global key material groups to drive efficiency, improve negotiation power and streamline our suppliers.

MANAGEMENT DISCUSSION & ANALYSIS

Going forward, we are looking to reshape our logistics and planning from an experience-based model to a fully-integrated planning and execution model. This is anticipated to create tremendous synergies, and our simulations show an improvement in production changeover. We will also further implement the standardisation programme and enhance the skillsets of our team members, along with employment of IT Tools like supplier and customer relationship management, and logistic tracking and handling.

ORGANISATION

During the year, we substantially enhanced our leadership team. To continue the Group's focus on entrepreneurship and strong leadership, Mr. Martin Pos, succeeded Mr. Song Zhenghuan as CEO of the Group. Mr. Johannes Schlamminger was promoted to CEO of Cybex and gb Brands, taking over responsibility from Mr. Martin Pos, along with our private label business in EMEA. Mr. Franki Tse was appointed as CEO China. Mr. Kim Zhao was promoted as CEO Rollplay under leadership of Mr. Michael Qu, executive director of the group. In late-2016 and early-2017, we further strengthened our team by adding Mr. Mark Zehfuss as CEO National Distribution Americas and Mr. Jon Chamberlain as CEO Evenflo. We now have leadership in place for all key group functions, brand business units and national distributions, positioning us to grow our business to the next levels.

We also conducted regional function integrations, merging Cybex and Evenflo's purchasing teams in China into our APAC procurement team. We consolidated and optimised R&D centres, reducing the total number of centres to seven. In the United States, we merged our organisations in Boston and Ohio into a single unit to lead and serve Americas' businesses.

We introduced a multi-continental and inter-cultural Triangular Management System, with a central vision, strategy and standard supporting decentralised execution in each region and Business Unit. The Business Unit leaders have full executional and operational responsibility for their areas. The Group also introduced Regional Chairmen as ambassadors of the Group's mission and cultural values, and mentors for future leaders.

We further introduced a Global Exchange Program where employees are encouraged to gain international and cross-functional work experience. The program enables our employees to develop an understanding of business ethics and experience working in their region of choice. It expands their network within the company and positively influences their personal and professional development. The Global Exchange Program is the first stage of a campus concept we're creating to educate young engineers, designers and other experts within the company.

INVESTMENT IN DIGITAL

In 2016, we assembled a strong digital team to create new online initiatives. Mr. Jan Rezab was appointed as Executive Director and CEO Digital Technologies of the Group. With his exceptional vision and technological knowledge, Jan is responsible for the digital arm of our BOOM strategy, which integrates branding with the online-to-offline business model and leverages mobile devices. An experienced team of developers, analysts and a lead engineer was brought onboard to support these initiatives. Our Digital strategy has three missions: big data analysis; engagement with our fans; and integrating digital technology into product development.

OUTLOOK

Throughout our relentless efforts in the continual transformation of the Group's business model, optimisation and integration of the Group's business we have successfully built a solid foundation in 2016, we are confident that we can further achieve revenue improvement through the continued expansion of own brands, creating new product categories in all regions, establishing new sales channels, leveraging our innovation capabilities and connecting directly with more consumers. We plan on delivering sustainable margin growth by continued efforts to build our brands, improve our revenue mix and supply chain efficiency, implement lean manufacturing, integrate and optimise the efficiency of our supply chain while minimising operating expenses by integrating operations across continents and departments.

FINANCIAL REVIEW

REVENUE

For the year ended 31 December 2016, the total revenue of the Group decreased by 10.3% from approximately HK$6,951.1 million for the year ended 31 December 2015 to approximately HK$6,238.2 million.

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

	For the year ended 31 December				Growth analysis 2016 vs 2015
	2016		2015		
	Sales (HK$ million)	% of sales	Sales (HK$ million)	% of sales	Growth
Our own brand and retailer's private label	5,011.3	80.3	5,214.8	75.0	-3.9%
EMEA	1,377.1	22.0	1,258.1	18.1	9.5%
Americas	1,882.1	30.2	2,031.0	29.2	-7.3%
APAC	1,752.1	28.1	1,925.7	27.7	-9.0%
Blue-Chip Business	1,226.9	19.7	1,736.3	25.0	-29.3%
Total	**6,238.2**	**100.0**	**6,951.1**	**100.0**	**-10.3%**

The decrease of the Group's own brand and retailer's private label business was primarily attributable to the decrease in China market following the implementation of the Group's new branding and channelling strategy in China market and the optimisation of business line mixture in Americas for better profitability. The decrease in China market was substantially due to the decrease of sales in Happy Dino brand. We turned around the China market from 24.7% decrease in the first half of 2016 to 2.9% growth in the second half of 2016.

The decrease of Blue-Chip Business was mainly due to the expected decrease of sales from the largest Blue-Chip customer due to the transformation of the Group's business model from OPM to brand-driven and the optimisation actions to phase out certain no profitability businesses.

MANAGEMENT DISCUSSION & ANALYSIS

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales decreased by approximately 15.8% from HK$4,900.9 million for the year ended 31 December 2015 to HK$4,126.7 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in sales volume, the foreign exchange rates fluctuation and the Group's continuous implementation of cost saving and efficiency improvement.

As a result of the foregoing, gross profit for the Group increased from approximately HK$2,050.2 million for the year ended 31 December 2015 to approximately HK$2,111.5 million for the year ended 31 December 2016, and the gross profit margin improved by approximately 4.3% from approximately 29.5% for the year ended 31 December 2015 to approximately 33.8% for the year ended 31 December 2016.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by HK$35.8 million from approximately HK$94.9 million for the year ended 31 December 2015 to approximately HK$59.1 million for the year ended 31 December 2016. Other income mainly consists of government subsidies, gain on wealth investment products and foreign exchange gains. The decrease was mainly attributable to the decrease in government subsidies and foreign exchange gains.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution expenses decreased from approximately HK$1,030.4 million for the year ended 31 December 2015 to approximately HK$982.5 million for the year ended 31 December 2016, which was mainly attributable due to the decrease in transportation costs and other expenses.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of salaries, research and development costs and office expenses. The administrative expenses increased from approximately HK$794.1 million for the year ended 31 December 2015 to approximately HK$924.3 million for the year ended 31 December 2016. The increase was mainly due to relevant cost relating to the discontinuation and integration, and the increase in employee cost.

OTHER EXPENSES

Other expenses of the Group increased to approximately HK$50.2 million for the year ended 31 December 2016 from approximately HK$3.1 million for the year ended 31 December 2015. The increase was mainly due to the disposal losses resulted from the discontinuation of our non-strategic and unprofitable businesses.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit decreased by approximately 32.7%, or HK$104.0 million, from approximately HK$317.6 million for the year ended 31 December 2015 to approximately HK$213.6 million for the year ended 31 December 2016. The Group's non-GAAP operating profit increased by approximately 0.6%, or HK$2.0 million, from approximately HK$340.7 million for the year ended 31 December 2015 to approximately HK$342.7 million for the year ended 31 December 2016.

FINANCE INCOME

For the year ended 31 December 2016, the Group's finance income decreased by approximately 54.2%, or HK$3.9 million, from approximately HK$7.2 million for the year ended 31 December 2015 to approximately HK$3.3 million. The Group's finance income mainly represents interest income from bank deposits.

FINANCE COSTS

For the year ended 31 December 2016, the Group's finance costs decreased by approximately 8.8%, or HK$5.3 million, from approximately HK$60.5 million for the year ended 31 December 2015 to approximately HK$55.2 million. The decrease for the year ended 31 December 2016 was mainly attributable to the decrease in bank loans and other borrowings.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group decreased by 38.8% from approximately HK$264.3 million for the year ended 31 December 2015 to approximately HK$161.8 million for the year ended 31 December 2016. The Group's non-GAAP profit before tax increased by approximately 1.2% from approximately HK$287.4 million for the year ended 31 December 2015 to approximately HK$290.9 million for the year ended 31 December 2016.

INCOME TAX

The Group's income tax credit was approximately HK$50.4 million for the year ended 31 December 2016 whereas income tax expense was approximately HK$61.7 million for the year ended 31 December 2015. The decrease in the amount of income tax expense was mainly attributable to the recognition of deferred tax assets that previously were not recognised by our subsidiaries in the United States.

PROFIT FOR THE YEAR

Profit of the Group for the year ended 31 December 2016 increased by 4.7% from approximately HK$202.7 million for the year ended 31 December 2015 to approximately HK$212.2 million. Non-GAAP profit of the Group for the year ended 31 December 2016 decreased by 0.9% from approximately HK$223.2 million for the year ended 31 December 2015 to approximately HK$221.3 million.

NON-GAAP FINANCIAL MEASURES

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

MANAGEMENT DISCUSSION & ANALYSIS

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2016							
		Adjustments						
	As reported	Net losses on discontinuation of non-strategic operations (a)	Integration- related costs (b)	Equity-settled share option expenses	Net fair value losses on call and put options (c)	Amortisation of intangible assets (d)	Recognition of deferred tax assets previously not recognized (e)	Non-GAAP
	(HK$ million)							
Operating profit	213.6	59.1	38.1	16.5	0.8	14.6	–	342.7
Profit before tax	161.8	59.1	38.1	16.5	0.8	14.6	–	290.9
Profit for the year	212.2	51.3	33.2	16.5	0.5	11.6	(104.0)	221.3
Operating margin	3.4%							5.5%
Net margin	3.4%							3.5%

	Year ended 31 December 2015					
		Adjustments				
	As reported	Integration-related costs (b)	Equity-settled share option expenses	Net fair value gains on call and put options (c)	Amortisation of intangible assets (d)	Non-GAAP
	(HK$ million)					
Operating profit	317.6	3.1	12.7	(7.3)	14.6	340.7
Profit befoe tax	264.3	3.1	12.7	(7.3)	14.6	287.4
Profit for the year	202.7	2.5	12.7	(4.6)	9.9	223.2
Operating margin	4.6%					4.9%
Net margin	2.9%					3.2%

Notes:

(a) Net losses on discontinuation of non-strategic and unprofitable operations.

(b) Costs related to integration of our business operations after the acquisitions.

(c) Net fair value gains/losses on call options and put options granted to non-controlling shareholders of a subsidiary of the Group, arising from acquisition of this subsidiary.

(d) Amortisation of intangible assets arising from acquisitions, net of related deferred tax.

(e) Recognition of deferred tax credit in Americas arising from Evenflo reaching sustainable profitability.

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2016	As at 31 December 2015
	(HK$ million)	
Trade and notes receivables (including trade receivables due from related parties)	937.8	1,005.3
Trade and bills payables	926.5	941.2
Inventories	1,099.8	1,244.8
Trade and notes receivables turnover days[(1)]	57	62
Trade and bills payables turnover days[(2)]	83	77
Inventories turnover days[(3)]	104	104

Notes:

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

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

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

The decrease of trade and note receivables and decrease of trade and notes receivables turnover days were mainly attributable to the increased proportion of the Group's own brand business in revenue and strengthened effort on cash collection.

The decrease of trade and note payables was relatively stable. The increase of trade and notes payables turnover days was mainly due to the improvement in payment terms.

The decrease of inventories was mainly due to the tighter control of inventory level. The inventories turnover days were stabilised in around 104 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group's monetary assets, including cash and cash equivalents, time deposits, pledged time deposits and available-for-sale investments, were approximately HK$783.5 million (31 December 2015: approximately HK$1,045.6 million).

As at 31 December 2016, the Group's interest-bearing bank loans and other borrowings were approximately HK$1,228.8 million (31 December 2015: approximately HK$1,697.6 million), including short-term bank borrowings of approximately HK$278.2 million (31 December 2015: approximately HK$691.7 million) and long-term bank loans and other borrowings with repayment terms ranging from three to seven years of approximately HK$950.5 million (31 December 2015: HK$1,005.9 million).

As a result, as at 31 December 2016, the Group's net debt position was approximately HK$445.3 million (31 December 2015: approximately HK$652.0 million).

MANAGEMENT DISCUSSION & ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities (31 December 2015: nil).

EXCHANGE RATE FLUCTUATIONS

The Group is a multinational enterprise with operations in different countries and denominated in various currencies, and the Group uses the Hong Kong dollar ("HK$") as its reporting currency, which is linked to U.S. dollar ("US$").

The Group's revenue is mainly denominated in US$, Renminbi ("RMB") and Euro. The Group's procurement and OPEX are mainly denominated in RMB, US$ and Euro. The net exposures to foreign currency risks of the Group's operating results are mainly the US$ and Euro revenue against RMB procurement and OPEX. The Group would benefit from the appreciation of US$ and Euro against RMB but would suffer losses if US$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

PLEDGE OF ASSETS

As at 31 December 2016, except for the pledged time deposits amounting to HK$25.4 million, the Group did not pledge any other assets.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (calculated by net debt divided by the sum of equity attributable to owners of the parent and net debt; the amount of net debt is calculated by the sum of trade and bills payables, other payables, advances from customers and accruals and interest-bearing bank loan and other borrowings (current and non-current) less cash and cash equivalents) was approximately 44.5% (31 December 2015: approximately 50.3%).

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. The Group recognizes that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Key functions in the Group are guided by their operating procedures, limits of authority and reporting framework. Such processes and procedures, limits of authority and reporting framework are updated according to business changes or business needs from time to time. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

The competition for talents in the countries that the Group operates leads to the risk that the Group is not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will continue to evaluate our remuneration system and policy from time to time and target to provide attractive remuneration package to attract, retain and motivate suitable candidates and personnel.

INDUSTRIAL RISK

The durable juvenile products market is highly fragmented and competitive worldwide. The Group faces competition primarily from third-party local durable juvenile product brand owners in the mass market and owners of international brands in the mid- to high-end market.

Meanwhile, the Group products market is highly fragmented and competitive worldwide. The Group faces competition primarily from third-party local durable juvenile product brand owners in the mass market and owners of in share and profit margins. Failure to maintain the Group's competitive position may materially adversely affect our business, financial condition, results of operations and prospects. Furthermore, change of the overall market condition including but not limited to overall economic condition and applicable regulations may also materially adversely impact the Group's sales, cost, expenses and profitability.

FINANCIAL RISK

In the course of business activities, the Group is exposed to a variety of financial risks, including but not limited to market, liquidity and credit risks. The currency environment, interest rates cycles and mark to market value of investment securities may pose significant risks to the Group's financial condition, results of operations and businesses.

Market risk is the risk that the Group's earnings and capital or its ability to meet its business objectives will be adversely affected by movement in foreign exchange rates, interest rates and equity prices, in particular any depreciation in the Group's functional currency may affect the Group's gross profit margin and that the Group has transactional currency exposure which arises from sales or purchases by operating units in currencies other than the units' functional currency. The Group closely monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimize foreign currency risk.

Financing risk is the potential that the Group will be unable to meet its obligations when they fall due because of an ability to obtain adequate funding or liquidate assets. In managing financing risk, the Group monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Credit risk is the risk of losses arising from a counterparty defaulting on an obligation which will result in an economic loss to the Group. It arises from manufacturing and sales businesses and other activities undertaken by the Group. The Group's exposure to credit risk for its businesses arises primarily from its customers. New customers are subject to credit evaluation while the Group continues to monitor its existing customers, especially those with repayment issues. Adequate credit insurance are in place to mitigate default impacts. The bank balances are deposited with creditworthy banks with no recent history of default.

BUSINESS RISK

The Group's businesses may be affected by various business risks, including but not limited to the Group's ability to gauge and respond promptly to changing consumer demands and tastes for the Group's product lines to cope with the intensified competition within the industry. Any failure to successfully translate market trends into attractive product offerings would have a material adverse effect in the Group's business, financial condition, results of operations and prospects.

In addition, the Group's business also depends on its ability to make improvements to its existing products as well as to create new products for commercialization. Failure to introduce new designs and products or making innovations to the Group's existing products may unable the Group to distinguish itself from other competitors.

Further, the Group's business is also subject to reputation risk, product quality issue, significant changes in customer relationship, failure in the Group's manufacturing process, production capacity, sourcing of quality key raw materials, stable supply from suppliers, and any material unfavorable changes in our outsourcing cooperation with third-party manufacturers.

DIRECTORS & SENIOR MANAGEMENT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DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

SONG Zhenghuan (宋鄭還), aged 68, is the chairman and executive director of the Company. Mr. Song resigned as the chief executive officer of the Company on 15 January 2016. With more than 27 years of experience in the juvenile products industry, Mr. Song is the founder and primarily responsible for our group's overall strategic direction and the management of the 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 the 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. Between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School, the predecessor of Goodbaby Group Co., Ltd., which is a major founding shareholder of our Group. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded our Group to engage in the design, manufacture and marketing of strollers under the 好孩子 Goodbaby brand in China. 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. In 2013, Mr. Song was selected as winner of Walter L. Hurd Executive Medal 2013 by the Walter L. Hurd Fo.

Mr. Song is currently a director of the following companies in the 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) Jiangsu EQO Testing Services Co., Ltd. (江蘇億科檢測技術服務有限公司);
(v) Cybex (China) Child Products Co., Ltd. (昆山賽栢克斯兒童用品有限公司);
(vi) Goodbaby Child Products Hanchuan Co., Ltd. (好孩子兒童用品漢川有限公司);
(vii) Goodbaby Children's Products, Inc.;
(viii) Goodbaby (Hong Kong) Limited;
(ix) Goodbaby Japan Co., Ltd.;
(x) Magellan Holding GmbH;
(xi) Goodbaby US Holdings, Inc.;
(xii) Serena Merger Co., Inc.;
(xiii) WP Evenflo Holdings, Inc.;
(xiv) Evenflo Company, Inc.;
(xv) Evenflo Asia, Inc.;
(xvi) Lisco Feeding, Inc.;
(xvii) Lisco Furniture, Inc.;
(xviii) Goodbaby (Europe) Group Limited;
(xix) Evenflo Hong Kong Limited; and
(xx) Pacquita Limited.

Mr. Song is also a director of Pacific United Developments Limited ("PUD"), a substantial shareholder of the Company, and an indirect shareholder of PUD through Cayey Enterprises Limited.

Mr. Song is also a director of Prefect Horizon Limited, Pinnacle Century Limited, Era Will Limited and 昆山媽媽好網絡技術有限公司 as well as an executive director of Goodbaby China Holdings Limited.

Martin POS, aged 47, is an executive director and chief executive officer of the Company responsible for the Group's strategy implementation and overall management, leading all the Group's business units and functions across each continent, comprising of technical services, supply chain and manufacturing, brand portfolio management, international distribution, national distribution and the Group's central services. Mr. Pos is the founder of the world's leading high-end child car seat brand CYBEX. He is an entrepreneur with over 20 years of industry experience including the development and management of premium lifestyle brands, most notably the global distribution, design and development of premium baby products. Following the merger of CYBEX in early 2014, Mr. Pos was appointed as the executive director of our company in March 2014 primarily responsible for the management of portfolio of global brands for our company. In December 2014, Mr. Pos was appointed as the deputy chief executive officer. In January 2016, Mr. Pos has succeeded Mr. Song as the chief executive officer of our company.

LIU Tongyou (劉同友), aged 49, was appointed as an executive Director on 21 February 2017. He is responsible for direct supervision and management of Group finance, internal audit, IT, legal, investor relationship and M&A, and development and implementation of strategy and target for these areas in his direct supervision and management. Mr. Liu started to support the Group from 1994 and formally joined the Group in 1996. Mr.Liu was appointed as the Group's Chief Finance Officer in 2010 being responsible for the Group's finance, internal audit, legal affairs, investor relationship and M&A plus relatively new responsibility, IT matters. Before he was appointed as the Group's Chief Finance Officer, he had been our Vice President and responsible for finance management, internal audit and legal matters of the Group. Mr. Liu has over 20 years of experience in corporate finance, legal and business management. Mr. Liu received his bachelor's degree of science in 1989 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a Master's degree in economics in 1992. Mr. Liu worked for a famous Economist, Jiang Yiwei (蔣一葦), as his academic secretary in 1992. He joined the Beijing Standard Consultancy Company (北京標準股份制諮詢公司) in 1993 as the business director and responsible for consulting on the restructuring as well as listing consultancy of a number of Chinese enterprises, including Haier Electric Appliance Company and Hainan Airlines Company. Mr. Liu was awarded "Top 10 CFO of the Year 2010 in China" by the Chief Finance Officer magazine.

Mr. Liu is currently a director of the following Group companies:

(i) Goodbaby (Hong Kong) Limited;
(ii) Goodbaby Child Products Co., Ltd;
(iii) Paragon Child Products Co.,Ltd;
(iv) Ningbo Goodbaby Child Products Co., Ltd;
(v) Jiangsu EQO Testing Services Co., Ltd.;
(vi) Goodbaby Child Products Hanchuan Co., Ltd; and
(vii) Goodbaby Czech Republic s.r.o..

DIRECTORS & SENIOR MANAGEMENT

Michael Nan QU (曲南), aged 49, was appointed as an executive director of the Company since 18 March 2014. Since December 2014, Mr. Qu has been primarily responsible for our Blue Chip Customers worldwide, working in a leadership role for the American market. Prior to this, Mr. Qu was our company's vice president, primarily responsible for managing key overseas accounts and strategic overseas resources. Mr. Qu joined us in 1994 and he is one of the founding members of the overseas business of the Group. Mr. Qu studied economics in the Economics School of Peking University from 1986 to 1989. He then went to the United States to study business administration at George Mason University from 1989 to 1992.

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

(i) Goodbaby Children's Products, Inc.;
(ii) Goodbaby (Hong Kong) Limited;
(iii) Goodbaby US Holdings, Inc.;
(iv) Serena Merger Co., Inc.;
(v) WP Evenflo Holdings, Inc.;
(vi) Evenflo Company, Inc.;
(vii) Evenflo Asia, Inc.;
(viii) Lisco Feeding, Inc.;
(ix) Lisco Furniture, Inc.;
(x) Columbus Trading – Partners USA Inc.;
(xi) Evenflo Canada Inc.;
(xii) Evenflo Hong Kong Limited; and
(xiii) Muebles Para Ninos De Baja, S.A. De C.V.

Mr. Qu is also an executive vice president of Goodbaby Children's Products, Inc.

WANG Haiye (王海燁), aged 51, was appointed responsible as an executive director of the Company since 19 August 2010. With effect from 21 February 2017, Mr. Wang has taken up the new role as chairman of Asia Pacific Group responsible for activating and coordinating the Group's resources in the region to support development of strategy, standards and process of the Group and its business and implementation of such strategy, standards and process in the region, identifying new business opportunities in the region which are in line with the Group's strategy, and being ambassador of the Group's mission and cultural value in the region. Mr. Wang is a veteran in the industry, with over 24 years of experience in developing and manufacturing durable juvenile products. He joined our group in 1992, initially as a manager for the operations management department to be responsible for establishing and improving the operations management system. In 1999, he was appointed as the vice president and then in March 2011 was appointed as the chief operating officer, responsible for overseeing our group's manufacturing operations, including production, purchasing, quality control and outsourcing. With effect from 12 December 2014, Mr. Wang's role was changed to be responsible for the Group's technology services. He was ceased to be the vice president of the Company at the same time. 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 companies in the 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);
(iii) Goodbaby Child Products Ping Xiang Co., Ltd.* (好孩子兒童用品平鄉有限公司);
(iv) Ningbo Goodbaby Child Products Co., Ltd. (寧波好孩子兒童用品有限公司);
(v) Jiangsu EQO Testing Services Co., Ltd. (江蘇億科檢測技術服務有限公司);
(vi) Goodbaby Child Products Hanchuan Co., Ltd. (好孩子兒童用品漢川有限公司);
(vii) Goodbaby (Hong Kong) Limited;
(viii) Goodbaby Children's Products Inc.; and
(ix) Goodbaby Japan Co., Ltd.

Mr. Wang is also a director of PUD, a substantial shareholder of the Company, and an indirect shareholder of PUD through Powergain Global Limited.

Jan REZAB, aged 30, was appointed as an executive Director on 25 July 2016. Mr. Rezab joined the Company in July 2016 as CEO Digital Technologies of the Group. Mr. Rezab is primarily responsible for setting up and implementing the digital part of the group BOOM strategy. Mr. Rezab will lead the Group to build up its fans eco-system connected through applications and smart products via mobile devices. Mr. Rezab, being well-known for his thought leadership on the trends, future, and societal impact of social media, was recently put on the "30 Under 30" list by Forbes magazine. Mr. Rezab founded Socialbakers, one of the world's largest social analytics firms, in November 2008. From November 2008 to June 2016, Mr. Rezab was the Chairman and a Director of Socialbakers, where he was primarily responsible for business strategy, product innovation and the continue development and growth of Socialbakers and is also the Chairman of the supervisory board of Socialbakers. Mr. Rezab founded Redboss s.r.o in 2002, a company that specialized in mobile entertainment business. He was the CEO of Redboss from 2002 to 2008, where he led both business and product development. Since 2014, Mr. Rezab has been investing in a mobile social network, Gamee, and is a member of its board of directors and the chairman of the supervisory board. Mr. Rezab was also appointed as executive director of Time is Ltd. s.r.o. on 12 October 2016.

NON-EXECUTIVE DIRECTORS

HO Kwok Yin, Eric (何國賢), aged 60, was appointed as a non-executive director of the Company on 1 February 2013. Mr. Ho was a founding partner of Sidley Austin's Hong Kong office and remained a partner of the firm until his retirement in 2010. Prior to joining Sidley Austin in 1999, Mr. Ho practised as a partner of Allen & Overy's Hong Kong office and before that as an associate for other major law firms in Hong Kong following his admission as a solicitor of the Supreme Court of England and Wales in 1987, and admission as a solicitor of the High Courts of Hong Kong in 1988. Mr. Ho received a Bachelor of Social Science Degree from the Chinese University of Hong Kong in 1980.

DIRECTORS & SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Iain Ferguson BRUCE, aged 76, was appointed as an independent non-executive director of the Company 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 for 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 Hong Kong Securities and Investment Institute. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc,. a company listed on NASDAQ, up to 3 July 2012. He was also an independent non-executive director of Vitasoy International Holdings Limited and retired from that company's board on 4 September 2014. He was the Chairman of KCS Limited from June 2003 to 1 August 2015. He resigned as an independent non-executive director of Sands China Ltd., a company listed on the Stock Exchange, on 11 March 2016.

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

- independent non-executive director of The 13 Holdings Limited (formerly known as Louis XIII Holdings Ltd.), 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 Wing On Company International Limited, a company listed on the Stock Exchange;
- non-executive director of Noble Group Limited, a company listed on the The Singapore Exchange Securities Trading Limited; 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 MSIG Insurance (Hong Kong) Limited. Mr. Bruce has over 51 years of experience in the accounting profession and possesses the accounting and related financial management expertise required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

CHIANG Yun, Rachel (張昀), aged 49, was re-designated as an independent non-executive director of the Company with effect from 23 May 2014. Ms Chiang was a non-executive director of the Company for the period from 15 November 2007 to 22 May 2014 and a director of the Company for the period from 14 July 2000 to 14 November 2007. Ms. Chiang has over 22 years of private equity investment experience in Asia. She is a founding managing partner of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, the private equity division of Pacific Alliance Group. 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 an independent non-executive director of Sands China Ltd and Pacific Century Premium Developments Limited, both companies are listed on the Stock Exchange. Ms. Chiang was also appointed as a member of the Nomination Committee of Sands China Ltd on 30 December 2016. Ms. Chiang has been appointed as an independent non-executive director of Merlin Entertainments, Plc., a company listed on London Stock Exchange, on 1 January 2016. Ms. Chiang has also been appointed as a member of the Audit Committee and Health, Safety and Security Committee of Merlin Entertainments Plc. on 24 February 2016. Ms. Chiang is also a managing partner of PAG Asia Capital (HK) Ltd. since June 2011. Ms. Chiang received her degree of executive master of business administration from The Kellogg Graduate School of Management of North-western 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.

SHI Xiaoguang (石曉光), aged 70, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Shi is the consultant of China Toy & Juvenile Products Association since 26 March 2015. In January 2012, Mr. Shi became the member of the Governance Board of the ICTI CARE Foundation. Mr. Shi has been elected as a new director of the ICTI CARE Foundation representing China since June 2016. Mr. Shi was formerly the chairman of China Toy & Juvenile Products Association (中國玩具和嬰童用品協會) (formerly known as 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. China Toy & Juvenile Products Association routinely provides information and holds training seminars on toy safety, product design and market development. The responsibilities of China Toy & Juvenile Products Association include recommending the safety standards and/or regulations of durable juvenile products to recommend 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)).

JIN Peng (金鵬), aged 40, was appointed as an independent non-executive director on 21 February 2017. Mr. Jin has over 18 years of experience in technology investments, entrepreneurship, financial advisory and corporate management. Mr. Jin started his career in 1998 as a member of Bear Stearns Asia's New Media & Telecom group. In 2000, Mr. Jin joined 21Vianet Group Inc. (NASDAQ: VNET) as an executive vice president where he was responsible for overseeing business development, product, marketing and international sales and was later appointed as a chief financial officer. From 2003 to 2007, Mr. Jin served as a partner in CEC Capital Group (formerly known as China eCapital Corporation) where he provided fund raising, merger and acquisition advisory services for growth stage companies in the PRC. In 2008, Mr. Jin co-founded Keytone Ventures, a venture fund focused on early stage technology investment opportunities with a total asset under management of US$420 million. Mr. Jin left Keytone Ventures in 2014 to start Emerge Ventures, a venture studio specializing in mostly seed and angel investments and incubating technology startups. Mr. Jin obtained a bachelor's degree with a dual major in Finance and Information Systems from the New York University in 1998.

Save as otherwise disclosed, there is no relationship between any members of the Board except that Mr. Wang Haiye is the nephew of Mr. Song Zhenghuan, and no information relating to the directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules.

DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Gregory E. MANSKER, aged 60, is the chairman and chief executive officer for the Northern and Southern American markets and chief executive officer of Evenflo. He is primarily responsible for our business development in the region of America. Mr. Mansker joined us in October 2011 and has over 29 years of experience in international business operations, offshore sourcing and mergers and acquisitions. Mr. Mansker was staff counsel of Graco Children's Products, Inc. from 1981 to 1983 and staff counsel for Ferranti International plc USA divisions from 1983 to 1989. He served as the vice president of the international division and the vice president of global marketing of the Graco Division of Newell Rubbermaid from 1989 to 1998 and from 1998 to 2001 respectively. From 2001 to 2002, Mr. Mansker was a management consultant at CF Capital Group. Mr. Mansker then served as the chief executive officer of Chicco USA, Inc. (division of Artsana S.P.A.) from 2003 to 2009 and the chief executive officer of Iron Mountains LLC. from 2009 to 2011. Mr. Mansker received his bachelors degree in prelaw from the Bob Jones University in 1978 and his juris doctor degree from the Villanova University in 1981. Mr. Mansker was admitted to practice law in the states of Pennsylvania and New York in the United States. He was a board member of the JPMA trade association from 2000 to 2002 and 2005 to 2011, and the board chairman in 2009. He is currently a board member of First Candle, a children's health organisation in the United States.

Simone BERGER, aged 38, is the senior vice president of Group Human Resources in charge of our Group's human resources and talent management strategy globally. Mrs. Berger has been an international HR executive for more than 10 years. After working in the USA and Germany at Bayer AG, one of the leading life science companies, she relocated to Asia in 2005. She spent almost 6 years in Shanghai at Schaeffler Group, a globally-known German automotive supplier. There she led the international human resources function for the Asia Pacific Region. In 2010, Mrs. Berger moved with Schaeffler Group to Singapore. Prior to joining CYBEX/Goodbaby in August 2012, she was the Regional Manager Human Resources Asia Pacific at Voith Turbo Singapore, a German multinational corporation in the mechanical engineering sector with worldwide operations.

Johannes SCHLAMMINGER, aged 37, is the CEO of Goodbaby International's strategic brands CYBEX and gb. Mr. Schlamminger is predominately responsible for the strategy development of the brands globally. He joined CYBEX in 2010 and has held various management positions within the company. Since January 2015, Johannes has been working as Vice President International Sales. Prior to this, Johannes had worked as Head of Channel Business for ZF Electronics, a supplier of computer devices and electronic automotive parts, and was a professional basketball player at BBC Bayreuth. Through the many positions he was holding, Johannes was able to gain strong commercial and retail experience in the global juvenile industry. Paired with his excellent capabilities in customer understanding and attention to detail, this acquired knowledge lead to an exceptional commercial and operational record.

Jon CHAMBERLAIN, aged 55, is the chief executive officer for the Evenflo brand. Mr. Chamberlain joined the Group in January 2017, bringing his proven track record of success in the juvenile industry. Mr. Chamberlain served as president of Americas for Britax from 2007 to 2015, leading a period of dramatic growth and profitability. Before joining Britax, Mr. Chamberlain served as president for Irwin Tools, a division of Newell Rubbermaid, and President of Swingline Tools, a division of ACCO Brands. Mr. Chamberlain holds a Masters in Business Administration from Loyola University in Maryland.

TSE Shing Fung (謝承鋒), aged 52, is chief executive officer of our China Market in charge of the development and growth of the whole China market including the development and sales & distribution of the Group brand portfolio in China since December 2015. Prior to this, he was CEO China manufacturing & blue-chip business predominantly in charge of the overall operation execution in our China manufacturing facilities and overall management in our blue-chip business. Mr. Tse joined us in 2014 bringing over 32 years of experience from the juvenile and toy and electronics industry. Mr. Tse was chief executive officer of the U.S. listed company Deswell Industrial Inc. with responsibility for the management of the Company's overall sales and operation include the plastic injection & tooling factory and EMS & metal factory and he led the company to overcome challenges and difficulties successfully.

DIRECTORS & SENIOR MANAGEMENT

Thierry AUBRY, aged 51, is the senior vice president Group Production responsible for the Group's production. Before he joined us in November 2015, he was General Manager of Faurecia Emissions Control Technologies China Division since 2008. He joined Faurecia Exhaust Systems in Wuhan (China) in 1995. Before joining Faurecia, he used to work at Gaz de France in Beijing since 1990. Mr. Aubry holds a degree in Engineering from the Ecole d'Ingénieurs de Tours (France), a postgraduate degree in Finance from the Luoyang Institute of Technology (P.R. China) and a dual EMBA degree from the Marseille Euromed and Shanghai Jiaotong University.

Raoul BADER, aged 54, is the senior vice president Technologies Brands for the Group leading our global research and development, quality and technical project management for the Group's brands. Dr. Bader has accumulated over 18 years of experience in consumer goods business, with 8 years working at leading MNC's including Braun, Gillette and Procter & Gamble as an R&D manager. Following Braun, Dr. Bader joined Leifheit, a German company that produces household products where he was responsible for the R&D, quality and IT. After four years with Leifheit, Dr. Bader went on to join CYBEX, and has been a key member of CYBEX team for over four years. During this time he has played an instrumental role in establishing the CYBEX brand as a leader in safety and technology. In September 2015, Dr. Bader was appointed as senior vice president of the Group.

Phillip RAUM, aged 40, is the senior vice president of Group Marketing predominately in charge of the global brand management and marketing strategies for the Group and its brands. He joined the Group in March 2015. Prior to this, he worked for nine years at medi as the General Manager for the lifestyle division. Mr. Raum was instrumental in building and launching two new global lifestyle brands for medi:CEP, functional sportswear label and ITEM m6, functional fashion legwear and shapewear label. Within this role, Mr. Raum was responsible for the product and commercial strategy of the brands. His key career highlights include establishing and positioning both brands within high-end sports and fashion markets in more than 30 countries worldwide with a priority on the North-American, Central European and Asian markets.

COMPANY SECRETARY

HO Siu Pik (何小碧), is a director, Corporate Services of Tricor Services Limited ("Tricor"), a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. Ho has over 20 years of experience in the corporate service field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho is a Chartered Secretary and a Fellow member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators ("ICSA") in the United Kingdom. Ms. Ho is a holder of the Practitioner's Endorsement from HKICS.

Goodbaby International

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


gb

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

OVERVIEW

This report is the first Environmental, Social and Governance (ESG) Report published by the Group, with the focus on disclosing information on the Group's performance in economic, social and environmental aspects from 1 January 2016 to 31 December 2016. This report is an annual report.

BASIS OF PREPARATION

This report is mainly based on the revised Guidelines on Environmental, Social and Governance published by Hong Kong Stock Exchange in December 2015.

The contents of this report are made based on a set of systematic procedures. Relevant procedures include identifying and listing out important stakeholders, identifying and listing out important ESG-related issues, determining the scope of ESG report, collecting relevant materials and receipts, compiling data based on materials and analysing data in the report, etc.

REPORTING SCOPE AND BOUNDARIES

The policy documents, declarations and data in this report cover the Company's headquarters and subsidiaries and holding companies.

DATA SOURCES AND RELIABILITY GUARANTEE

The data and cases in this report are mainly from the Company's statistical reports and related documents. The Company undertakes that there are no false representations or misleading statements and it is responsible for the authenticity, accuracy and completeness in the material aspects of the contents of this report.

CONFIRMATION AND APPROVAL

After receiving approval of the management, the report was approved by the Board of Directors on 28 March 2017.

ENVIRONMENT, SOCIETY AND GOVERNANCE

ESG GOVERNANCE STRUCTURE

In order to effectively implement the ESG measures, the Company has set up the ESG Report Working Group. Relevant departments arranged special personnel to collect ESG-related data and to prepare report. The ESG Report Working Group regularly reports to the Board of Directors through the CEO, so as to assist in the evaluation and determination of the appropriateness and effectiveness of the ESG risk management and internal control systems. The roles and responsibilities are as follows:

Board of Directors

- Assess and determine the Company's ESG risks
- Ensure that the Company sets up appropriate and effective ESG risk management and internal control systems
- Examine and approve ESG-related policies
- Examine and approve ESG Report

CEO

- Implement ESG risk management and internal control systems
- Guide the work of ESG Report Working Group
- Examine and approve ESG-related policies
- Examine and approve ESG Report, confirm the accuracy of performance indicator data

ESG Report Working Group

- Arrange special personnel to collect ESG-related data and prepare report
- Regularly report to the management of the Company to assist in the evaluation and determination for appropriateness and effectiveness of the ESG risk management and internal control systems

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GOVERNANCE PHILOSOPHY

We are proud to be a company that provides quality products and services for children. Our mission is to improve children's living environment and quality, and everything we do is in accordance with the Company's core values: imagination, passion, strength, trust, respect and love. Believing in the value of creativity and imagination, we encourage employees to be open-minded and innovative. Passion can help us overcome difficulties, desire and motivation are keys to achieving our goals, our strength makes us resilient, trust and team spirit are our foundation. We respect our employees, business partners, customers and other stakeholders. We create our products and serve our customers with our energy and love. At the same time, we actively assume social responsibilities to protect our planet. Our employees come from different backgrounds and speak different languages, but we all share the same values.

IDENTIFICATION OF STAKEHOLDERS

We are committed to building a wide range of channels of communication with our stakeholders. We believe that two-way, transparent and regular communication will help maintain a harmonious relationship with all parties, strengthen mutual trust and respect and lay a solid foundation for the Company's sustainable development. We have identified a number of key stakeholders who have decision-making powers or influence on the Company and are closely related to the Company (e.g., contractually or geographically related). The stakeholders include the following groups:

- Employees
- Shareholders/Investors
- Government departments
- Suppliers
- Communities
- Media
- Consumers

We actively communicate with different stakeholders to understand their concerns and regularly review the effectiveness of our policies to ensure that the views of stakeholders are properly conveyed through different communication channels. The following table lists out the topics of interest of different stakeholder groups during the reporting period.

Stakeholder group	Main concerns of stakeholders	Communication channel	Frequency
Employees	Employment and labor	– Interview with employees	From time to time
	Salaries and benefits	– Internal email of the Company	From time to time
	Training and development	– Internal Wechat account	From time to time
Shareholders/Investors	Operation results ESG governance philosophy	– General meeting/ Extraordinary general meeting	The general meeting of shareholders is held once a year. If there is a major event, an extraordinary general meeting.
		– Investor meeting	From time to time
		– Results announcement	From time to time
		– Press release/announcement	From time to time
		– Field research	From time to time
Government departments	Green production	– Field research	From time to time
	Compliance	– Meeting	From time to time
		– Applications and explanation	From time to time
		– Written report	From time to time
Suppliers	Product liability	– Field research, involvement in the research and development ("**R&D**") of new products, establishment of product traceability system	From time to time
	Supply chain management	– Supplier Quality Assurance counseling, supplier assessment	From time to time
	Operation results	– Supplier conference	Once a year
Communities/non-governmental organizations	Green Production	– Field research	From time to time
	Product liability	– Meeting	From time to time
Media	Community investment	– Press release/announcement	From time to time
	Product liability	– Interview–Conference	From time to time
Consumers	Product liability	– Online promotion	From time to time
	Green production	– Offline store display, press release, promotional activity, roadshow	From time to time
		– Email	From time to time
		– Telephone	From time to time
		– Wechat	From time to time
		– Conference	From time to time

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GOVERNANCE OBJECTIVES

We are fully aware of our social responsibilities. Therefore, we strive to cater for social needs, strengthen communication with the public, use our own professional advantages, to carry out activities which will contribute to the construction and development of a harmonious society.

In terms of the Company's core values, we will continue to care for our employees, protect the environment and repay the society. In 2017, we will advance with the times, deepen the value of social responsibility and work together with the stakeholders. Through cooperation, innative means we will contribute to the society and create a harmonious society which allows sustainable growth of our Company.

HONORS AND AWARDS

In recent years, we have outstanding performance in product quality, product design, brand influence, market shares and social welfare. Therefore, we have won a large number of international and domestic honors and awards. The major awards in 2016 are as follows:

China Standard Innovation Award, issued by China's General Administration of Quality Supervision and China National Standardisation Management Committee

State-level Technological Innovation Demonstration Enterprises recognised by China's National Ministry of Industry and Information Technology

Various China Children Baby Maternity Industry Awards (CBME AWARDS), including Influential Brand of Consumers' First Choice and the Industry's First Choice in 2016 among travel products, auto seat products and children's beds

Contribution Award of 2016 China International Trademark Brand Festival

Outstanding Enterprise of Jiangsu Province, China

Top 50 Independent Industrial Brands of Jiangsu Province, China

Pockit Stroller won the Red Dot Design Award (Product Design Award), Hanover Industrial Design Forum iF Gold Award, China Excellent Industrial Design Award issued by China National Ministry of Industry and Information Technology, Jiangsu Province Industrial Design Gold Award issued by Economic and Information Technology Commission of Jiangsu Province, China

Cloud Q car safety seat won Design Red Dot Award (Product Design Award)

Hausschwein's design won Red Dot Award (Design Concept Award)

"gb" brand car safety seat and stroller was recognised as having the largest market share in China in the year of 2015 and won the Honorary Certificate

Safety seats, including Cybex Solution Q2-fix, Cybex Solution X-fix, Evenflo Advanced Transitions, Evenflo Amp, Evenflo Big Kid, Evenflo Big Kid Amp and Evenflo Big Kid LX won IHHS Safety Rating – Best Choice

The safety seat "Sensor Safe" won the Best of Baby Tech Awards 2016 (The Bump Best)

Evenflo SecureKid Convertible Car Seat was rated as Overall Ease of Use 5 Star Rating made by National Highway Transportation Safety Association

Various products, including Cybex Solution X-fix, Cybex Aton Q, gb Asana35 DLX and Evenflo SureRide were included in the product list of best choice and recommended purchase appraised and elected by an authoritative magazine of the United States[1]

[1] a leading and non-profitable organization that provides unbiased consumer product evaluation.

INTEGRITY OPERATION

During the 27 years since our incorporation, we have developed into a multinational company and a world leader of children's products. In the development process, we always adhere to the strict implementation of legal strategies and comply with the laws and regulations of the region. At the same time, we have been achieving high standards of moral requirements, including but not limited to fairness, integrity and honesty.

STRICT PROHIBITION OF CORRUPTION

We strictly abide by national anti-corruption laws and regulations and have zero tolerance for any form of bribery or corruption.

We have developed a detailed Anti-Corruption Ordinance that explicitly requires our employees, suppliers and other interested parties to abide by the relevant laws and regulations of each country. Rebates are strictly prohibited, and specific requirements are made for paying, giving or receiving gifts inappropriately, as well as the beneficial donation behaviors for political institutions, community agencies and charity organisations. We require every employee to earnestly study the Anti-Corruption Ordinance and always pay attention to their own behavior. At the same time we also set up a Reporting Policy which is supervised by the Audit Committee. The Reporting Policy encourages employees, customers, suppliers, and other stakeholders to report any suspicious misconduct or malpractice.

We always advocate that each of our employees should assume the responsibility of maintaining the Company's reputation. At any time we must be honest and upright, and we are committed to helping the Company to obtain its benefits.

COMPLETELY ERADICATE VIOLATIONS

We follow the guidelines and our core values. It is the responsibility of all employees to comply with the Code of Business Conduct drawn up by the Company. If there is any uncertainty, the employees should consult with their direct supervisor, Human Resource department or legal department. We have been training our staff on learning the Code of Business Conduct and the Anti-Corruption Ordinance, and any violation of the Code of Business Conduct will be subject to disciplinary actions.

We also encourage employees to report violations of the law or violations of company regulations to senior management of the relvant departments. The Company has developed a relevant mechanism to correctly handle any reported violations or complaints.

QUALITY POLICY

We have been adhering to the philosophy of creating and producing quality products sincerely for 27 years.

INNOVATION CREATES "GOODBABY"

Innovation is our DNA. In the past 27 years, driven by technological innovating, management innovation and idea innovation, we have gradually developed into a global industry leader.

The Group has set up 7 R&D centres in China, Europe, the United States and Japan, bringing together more than 450 design elites within the industry from various countries. The Group also set up renowned team being composed of R&D, quality, marketing and manufacturing departments, to form the integrated product development model (IPD) which combines the marketing, designing and manufacturing. Our research and development around the world is renowned for seamless connection, efficient complementary and collaborative cooperation.

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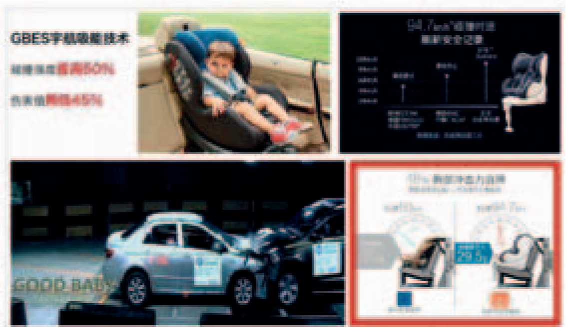
As an important member of children's products standards committee in China, United States and Europe, we have led or participated in the development of 186 product standards for children in China and other countries. With approval from the International Organisation for Standardization (ISO), we set up the Joint Secretariat of the ISO/PC310 Commission for the Standardisation of Baby Carriers, for which we were evaluated by the International Standards Committee as "an enterprise that has a voice in this industry". We will lead the industry experts from different countries to develop the international standards for baby carriers. We have won 16 world industrial design awards. Our product design capabilities are one of the leading companies in the global industry.



GBES

By applying the "spacecraft returning technique", and conducting large data analysis based on a large number of impact tests, the Company spent five years to develop the GBES aerospace energy absorption core technology. High-speed child car safety seat that adopts this technology can stand an impact test speed of 80 km/h as compared to the usual tolerable speed of 50 km/h (the world-wide standard speed of 50 km/h).

The evenflo "SensorSafe"

The evenflo "SOS" bluetooth alarm was designed to prevent children from being forgotten in the car and is the world's first technology which integrates the car's information to a children's product. It won the Best of Innovation Honorees of American Association for Young Children and the International Consumer Electronics Show's Award of Best Technology.

Pockit

This extremely innovative Pockit Stroller can be easily folded in two steps within three seconds at the fastest. It is of a size of a laptop computer bag when it is folded, and it can be hand carried to the aircraft cabin. The stroller has obtained 55 patents, and was recognised by Guinness record as "the smallest commercially available folded pram in the world". After winning the German Red Dot Design Award, it won the iF Gold Award, which is also known as "Oscar" in the global industrial design industry. The stroller which has won the iF Gold Award became the sole children's product in iF history. It has also won the China Excellent Industrial Design Gold Award.

STRICT CONTROL OF PRODUCT QUALITY

We use the most advanced quality control tools (Six Sigma, FMEA, DFMEA, PFMEA, hazard assessment, etc.) to meet with the TS16949 certification and ISO9001 certification standards for quality control system in the automobile industry.

We actively adopt fault design prevention, simplified design and safety design, weather resistant design and ergonomic design in the product designing process. In the early statges in the product planning, product designing and development, we begin to study the safety, reliability and manufacturability of products. Before implementing the product design, the product safety committee organises product safety assessment, and we introduce the security contents of product safety assessment in various production stages to ensure that no new products with hidden danger proceeded to the next step, and guarantee that the product is safe and reliable from the source.

In the process of mass production, we carry out our control of the product quality and safety risk at two levels: Company and business division/factory. The Company's Quality Management Centre is responsible for the management/control of the supplier and organisation of product auditing, process auditing and system auditing to ensure the effectiveness of the quality control process. The factory is responsible for routine auditing of the supplier, purchase inspection/testing, quality confirmation of the first piece, process inspection, factory inspection/testing and a comprehensive testing after fixing a date or quantity to achieve product consistency.

Our factories in the Americas use testing standards which are stricter than requirements of the US government. These general testing standards which are beyond the industry standards include impact testing (impact intensity is twice that set forth in the federal impact test standard), side impact test, UV test, misuse test, cycle test, chemical test and traffic test.

Aton Q i-size

Aton Q i-size basket-type child car safety seat is equipped with an energy-absorbing shell and a LSP streamlined side impact protection system, which can effectively absorb the impact force. In the ADAC testing in October 2016, the Aton Q i-size was awarded best in its respective category with 1.7 points. The Aton Q i-size won the first prize issued by StiWA (A renowned, independent and non-profit German consumer test organisation) institution with excellent results of (1, 7).

ENSURE PRODUCT SAFETY

We have established a nationally recognised testing centre, which includes mechanical and testing laboratories, a chemical laboratory, a toxicity analysis laboratory, a child car safety seat impact test laboratory, a textile laboratory and a component laboratory. Products tested in the testing centre include car seats, strollers, dining chairs, baby straps and children's activity centre. The tests ensure that all of our products and accessories are tested for safety and reliability. The testing centre has the following qualifications:

- A national laboratory accredited by China National Accreditation Service for Conformity Assessment (CNAS) and ISO17025 quality certification
- The children safety door testing laboratory is certified by the Juvenile Products Manufacturers Association (JPMA)
- Certified by the Automotive Manufacturers Equipment Compliance Agency (AMECA)
- As a member of the Juvenile Products Manufacturers Association (JPMA), we are committed to improve industry standards, safe use and selection of children's products, and working closely with US regulators (CPSC and NHTSA)
- As a member of the Automotive Manufacturers Equipment Compliance Agency (AMECA), we advocate development of children's products standards and methods
- As a member of the Child Injury Prevention Society (CChIPS), we develop safer products through researching on prevention of child injury in order to prevent child injury
- As a member of the Baby Products Association (BPA), we participate in the executive and technical committees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has established Product Safety Management System to regulate the Company's product safety management, prevent and eliminate product defects which may lead to damages to consumers in order to protect the health and safety of our consumers. The Company has set up a safety committee to evaluate the risks of the product and the market, then decide whether the product needs to be recalled. We have developed a clear recall plan to protect consumers and customers. When the following circumstances occur, we should provide the information to members of the product safety committee within 24 hours to analyse the severity and determine the recall plan.

a) The product is complained by customers due to health and safety risks;

b) The product is found by the relevant authorities in checks (regular checks of government agencies) to contain defects;

c) The media reports product injury events;

d) Defective products are found in the Company's internal inspection;

e) Other changes (including technology, laws and regulations and emergencies) which affect the delivered products and cause safety risks to those products;

f) Information about other relevant defective products.

RESPONDING TO CUSTOMER COMPLAINTS

We have developed the Customer Complaint Handling System, the Control of No Conformance Product Procedure, the Customer Satisfaction Measurement and Analysis Procedures, the Claims Management System, the Quality Responsibility Management System and other measures to deal with complaints related to products and services. At the same time, we also have developed a complaint handling process. After receiving the customer complaints, a quality warning notice is issued to confirm the cause of the complaint. If a major problem is found, we will temporarily suspend operations to deal with complaints. The above systems and processes help us to exercise effective control over the handling of complaints.

Advanced child car safety seat impact test laboratory

PROTECTING INTELLECTUAL PROPERTY RIGHTS

We have attached great importance to the creation, the use, the management and the protection of intellectual property rights. Since 1991, we have started using the law as weapons to protect ourselves against counterfeits. In 2010, we established the Intellectual Property Protection Centre. Currently, the Corporate Legal Department and the Intellectual Property Protection Centre take charge of managing and maintaining the global intellectual property, developing and implementing trademark brand strategy, brand building and rights protection.

Application and registration of trademarks and patents: We have developed a detailed process that requires all trademarks and patents to be registered before production, so as to prevent external competitors' malicious cybersquatting. At the same time, by means of legal agreements, we have made clear that all on-duty inventions by employees belong to the Company's intellectual property, protecting the corporate intellectual property rights.

The use of trademarks by the departments should be in accordance with the provisions of the law. No change of the trademark design and fonts at will is allowed. Such measure is to prevent the emergence of trademark dilution and protect the validity of the Company's trademark assets.

Intellectual property rights monitoring: The Company has employed internal lawyers in regional headquarters of China, Europe and Americas to manage the Company's intellectual property, while hiring local professional lawyers to help deal with issues related to intellectual property as well as monitoring domestic and foreign trademark. Thus, the vertical and horizontal brand protection system network is constructed for the global brand management strategy. At the same time, we have documented various intellectual property rights in China Customs to prevent the export of products which infringe our intellectual property rights.

Protection of intellectual property rights: over the years, we have launched a total of more than 100 litigation cases of intellectual property infringement in the offline market, effectively combated counterfeit manufacturers, and safeguards the legitimate rights and interests of the Company. For the online market, we hired a professional anti-counterfeit company, and closely cooperated with e-commerce platforms to timely remove infringing product links. In Europe and Americas, we identified infringement acts through industry exhibitions and sales channels, and combated the European and American infringing manufacturers promptly by sending out lawyer's warning letters, lodging suits in court, etc., in order to actively maintain the healthy development of overseas markets. Especially in Germany and Italy, we successfully prevented the sale of infringing products by relying on the court's temporary injunctions and court proceedings.

GREEN PRODUCTION

We implement green production practices and reduce the risks caused to the environment. We use resources with caution and always comply with applicable local environmental protection laws and fire safety laws and regulations.

As the Company mainly carries out its production in China, the followings are the reports of the Chinese region.

ENERGY SAVING AND CONSUMPTION REDUCTION

We conscientiously implement relevant laws and regulations. Targeting at protecting the environment and highlighting clean production, we apply various measures including energy saving, pollution reduction and efficiency enhancement to reduce the impact of our production activities on the environment. Meanwhile, we continue to establish and improve the environmental management mechanism, and continuously promote further improvement of environmental protection management capacity by strengthening supervision and the foundation.

The Company has developed the Power Usage Management System, the Natural Gas Usage Management Rules and a series of energy management systems to standardise the use of energy. In addition, through continuous implementations of energy-saving emission-reducing management mechanisms, we actively promote and improve the energy-saving emission- reducing monitoring system, thus enhancing energy efficiency and reducing energy consumption.

In 2016, fuel of the steam boiler in the dormitory of the industrial park was replaced by the clean energy. The original annual coal use of 2,700 tons (equivalent to 1,929 tons of standard coal) and sulfur dioxide emissions of 30,240 kg/year have been reduced to 0 usage and 0 emission. At the same time, the LED energy-saving lamps were used to replace the incandescent lamps, so that the annual energy saved in 2016 reached 677,600 kwh.

SAVING WATER

The Company has developed Water Management System to effectively standardise the use of water resources. Corporate Services Division and each business division/factory carry out effective maintenance of water pipe network and timely repair failure of the pipe network. For the production water supply, the Corporate Services Division arranges professional staff to designate water network interface, and installs the meters to measure the water supply. For domestic water, the Corporate Services Division requires employees to take good care of water valves and other equipments and facilities by providing training on reasonable effective water usage to employees, so as to raise water conservation awareness.

EMISSIONS REDUCTION

The Company has established the ISO14001 environmental management system and has achieved effective management of waste water, exhaust, wastes and disposal by developing a series of management systems and operating specifications such as Wastewater

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Management Regulations, Exhaust Gas Management Regulations and Waste Management Regulations. In addition, by mastering and analysing the basis weight of environmental burden substance produced in the operation activities, we try to reduce the burden of production activities on environmental protection, so that the concentration of waste water and waste emissions will fall below the emission concentration allowed by the government.

Wastewater discharge

Waste water generated by the production activities is processed by multi-level materialisation and chemical treatment. We specifically intend to reduce COD, nitrogen and other hazardous substances in the waste water, and adopt RO2 to increase the amount of intermediate water reused, finally reducing waste water discharging and saving the amount of tap water used. As for the key indicators such as nitrogen and phosphorus, we increased the investment to set up additional MVR evaporation systems to achieve zero nitrogen and phosphorus emissions and reach China's leading domestic level.

Starting from saving resources and reducing the total amount of pollutants discharged, the Company added Ro1 and Ro 2 intermediate water reuse systems according to wastewater quality of the sewage treatment plant.

Exhaust gas emissions

On the basis of absorption by the original water curtain, the Company has set up additional level- three waste gas treatment facilities (secondary water spray tower + photo - oxidation catalytic decomposition + adsorption of activated carbon) to dispose of the exhaust gas emitted from the production activities. Especially, the photo - oxidation catalytic decomposition device adopts ultraviolet light to catalytically decompose the organic matters, decomposing and reducing the content of organic matters, but also playing a role in disinfection and deodorisation. The overall device can remove more than 98% of the organic exhaust produced, achieving very low pollutant emissions.

In 2016, the Company invested RMB 3 million in laying the unified natural gas pipeline network, which is directly connected to each production and heating process to reduce emissions of sulfur dioxide and nitrogen oxide.

Waste management

We have made a lot of achievements in waste management:

The Company realised effective handling of hazardous and harmless wastes by establishing Waste Management Regulations and Hazardous Waste Disposal Processes. In accordance with the Waste Management Regulations, collection of hazardous and harmless waste should be classified, and the qualified suppliers are commissioned in a classified manner for legal disposal.

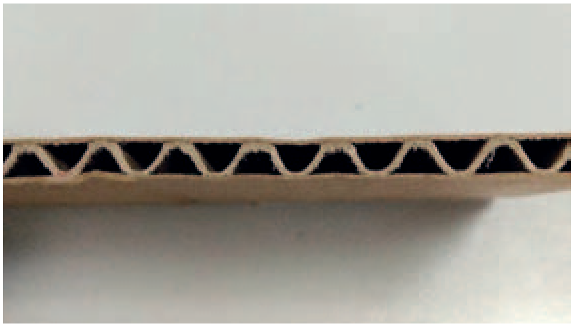
As for hazardous waste and its containers and packing materials, classified storage, fixed storage and the identification logos are used. The Company commissioned the suppliers to transport those wastes to the disposal chamber, and strictly fill in the transfer forms of hazardous waste in accordance with the relevant provisions of the government. In addition, the Company also designated personnel to follow and ensure that the hazardous wastes of the Company have been transferred to the disposal organisation.

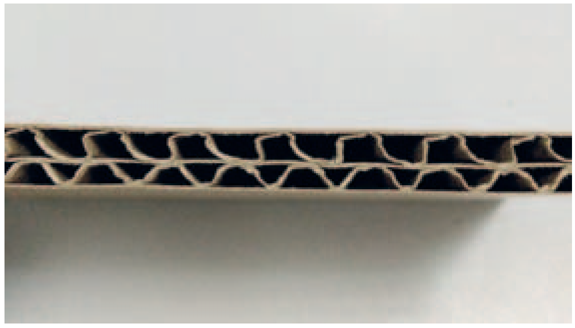
The Company takes "ecological economy" and "economy recycle" as the goals, and the efficient use and recycling of resources as the key to implement "reduction, reuse and resource utilisation" of the wastes. It combines the clean production and comprehensive use of wastes to genuinely reduce the ecological efficiency of resource consumption, to ensure the establishment of the material recycle system and the use of product materials safety, and achieve economy recycle.

GREEN PACKAGING

We do not only reduce the use of resources during the manufacturing phase, but also reduce the use of resources in the packaging stage of finished products by reducing the use of packaging materials.

We use four-layer boxes to reduce the cost of raw materials and increase the added value of the products. The four–layer box is one layer less than the five-layer box, and thus one layer of paper is saved; In addition, we increase the edge pressure (ECT53), which is ECT44 for the five-layer box. The thickness of the box has been decreased. The number of boxes has been increased and the transportation cost and purchasing cost have been reduced.





RESPONSIBLE SUPPLY

We know that suppliers, as the starting point of the entire value chain of business, have impact on the enterprise in an in-depth and extensive manner, and the quality of their products directly affects the product quality of the entire enterprise. The Company has been seeking for suppliers who are qualified, reputable, and offer superior qualities and are willing and able to operate their business in accordance with all applicable legal and ethical standards.

The Company's suppliers mainly include raw material suppliers, semi-finished products suppliers and finished products suppliers. As a whole, we ask the suppliers to comply with provisions in the Company's Supplier Guidelines regarding laws and regulations on forced labor, child labor, working hours, anti-discrimination, environmental and hygiene issues. Specifically, in terms of employment, the Company asks suppliers to ensure that employees are hired voluntarily. The use of any forced labor or prison labor is prohibited. In terms of environment protection, suppliers should comply with local and all applicable environmental laws and regulations in the country. We strive to protect the environment and tend to choose suppliers sharing a common sense of social responsibility with us. In terms of hygiene, suppliers should comply with local and all applicable health and safety laws in the country and provide safe and healthy working conditions for employees.

These standards are part of all agreements between the Company and the suppliers. We hope that the suppliers can establish and implement appropriate internal business processes to ensure that it can comply with the minimum standards set out in this policy. If the suppliers fail to comply with this policy, the Company shall have the right to terminate the contract with such suppliers and claim all costs and losses arising therefrom. This may even result in the termination of the Company's partnership with such supplier.

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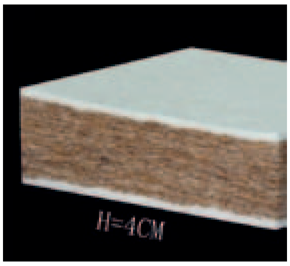
GREEN PROCUREMENT POLICY AND PRACTICE CASE

Use arenga engleri fiber to replace the foam sponge

Arenga engleri fibre is harmless to the human and causes no stimulation, and can inhibit the growth of bacteria. It can substantially reduce the harm of various types of bacteria. In addition, arenga engleri fibre is biodegradable, reducing the secondary pollution caused to the environment. We have applied arenga engleri fibre to baby beds.



CARE FOR EMPLOYEES

We inspire each colleague to thrive in an environment full of entrepreneurial spirit, innovation, passion, respect and trust. We endeavor to nurture everyone so that they, both as an individual and as a team member, can grow with great ambitions. With these foundations, we can actively predict the future and achieve sustainable development.

HUMAN RESOURCES OVERVIEW

We have an excellent team dedicated to creating a creative, visionary and enjoyable career environment. Our colleagues come from different countries and cultural backgrounds, but all of our teams have the common value.

The Company has always seen employees as one of the most important stakeholders in the enterprise, and follows fair employee recruitment, engagement, and training principles and object to ethnic, gender, religious and other discrimination. Employees' professional competence, skills, experience and quality, and more importantly - their enthusiasm are the standards for our selection of employees. In addition, the Company strictly abides by the relevant labor laws and regulations and policies of the places where we operate, formulate labor standards, prohibit the recruitment and use of child labor and prohibit forced labor. The Company guarantees that all staff members are voluntarily employed and do not use prison labor, and bonded labor and so on. The Company prohibits any person from collecting all kinds of deposit and original documents from employees, and prohibits any department and any person within the Company from forcing employees to work by means of violence, threat or illegal restriction of personal freedom.

As of 31 December 2016, the Company had 11,181 employees, including 5,016 males and 6,165 females.

JOINT DEVELOPMENT OF GLOBAL STAFF

The Company is committed to providing challenging, meaningful and rewarding individuals and career opportunities for all employees. In this respect, the Company will treat all employees equally regardless of the age, gender, origin, physical condition or whether there are any other protected features. This rule applies to all processes where the employee is employed, including recruitment of new employees, training, growth, remuneration, promotion, demotion, mobility, dismissal and special programs for selected employees.

To ensure that our unique culture, our values and our entrepreneurship are preserved while we grow and we have new people joining our Group, we have introduced the Triangular Management System to the Group. We implemented centralised vision, strategy and standards and decentralised execution across the regions and our business units. We have invited experts in areas to design practical strategy, standards and procesures. Our Business Units leaders have full executional and operational responsibility for their areas and as third dimension; we have invited our Regional Chairman to be the ambassador of our Group's mission and values in the region and the mentor for future leaders.

We respect our employees and are proud to have a globalised team. We bring together the world's experts and use the best ways to inspire creativity. We provide different training courses so that outstanding staff in different regions and positions can carry out in-depth communications.

We implemented a **performance improvement dialogue project for the employees worldwde** to discover and develop talent of the employees. We adopt an open dialogue communication channel that encourages all employees to provide feedback regarding their responsibilities and career development to ensure that they are able to grow better based on their potentials and aspirations.

By implementing **global exchange project**, employees can gain international work experience in other branches of the Company, which helps them expand their contacts and gain personal and career growth.

We are committed to helping our leaders, managers, and employees collaborate effectively and help their employees better realise the potentials, by providing the **global leadership training** in various segments of the Company.

In order to help employees deeply understand the cultural differences and business ethics in different regions, we have implemented an **international culture training program** to encourage employees at each country to actively cooperate and benefit from of the Company's culture diversity.

In the Chinese region, the Company has set up a training institution to implement internal and external training programs. This promotes the accumulation, dissemination and updates of the Company's internal knowledge and experience so that employees can have better knowledge of their work and improve their work efficiency. At the same time, this can also help the Company to build learning organizations, enhance the competitiveness and cohesion of the Company.

On 24 November 2016, the first phase of red carpet training for new employees was held as scheduled, 32 new employees participated in the training. 8 leaders, comprising of senior management and key department heads, were invited to be red carpet training guests. All guests could meet every new employee through this platform and give an introduction to the key work flow and business processes of the units headed by them. The leaders have high expectations to the new recruit in their new posts and hope the

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Company could achieve continuous development through the efforts of all employees.

The Company provided "college student training" for fresh graduates from 7 July to 15 October 2016. The course started with a total of 32 lectures which were taught by approximately 30 internal lecturers, key department heads and senior management. The course covered 13 modules totaling 64 training hours. We invited the Company's senior management to participate in the college students training this year.

EMPLOYEE OCCUPATIONAL HEALTH AND SAFETY

We strictly comply with the relevant laws and regulations governing the employee occupational health and safety in various regions where we operate, and provide healthy, safe and hygienic working conditions and necessary protective equipment. In our manufacturing facility in China, we have established an occupational health management system:

Enhance production safety management system

According to the requirements of laws and regulations such as Labor Law, Production Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases and Fire Control Law of the People's Republic of China, the Company amended a total of 40 occupational health and safety management systems and employee liability systems.

The Company passed the production line safety standardization class III qualified enterprise acceptance in 2012 and passed its amendment in 2015. The Company has established an occupational health and safety management system in accordance with the requirements of the OHSAS18001: 2007 standards and amended 40 occupational health and safety management systems and employee liability systems.

Enhance technical criterion on safety standards

In 2016, the Company continued to revise the technical safety standards for 30 types of equipment and facilities such as "Punch Safety Standards" and "Injection Moulding Machine Safety Standards", and improved the safety operation rules for part of the equipment and facilities in accordance with this standard.

Organise targeted training on safety awareness

The Company organised and implemented training in safety laws and regulations and 13MR training, risk control and other basic safety knowledge training, safety skills and quality training, and implemented company-level, factory-level and workshop-level training to cultivate employees' safety awareness the necessary knowledge of production safety to allow them to acquire the safetyoperation skills for their own posts and enhance their capabilities of preventing accidents, controlling occupational hazards and emergency response and disposition.

Introduce advanced concept of safety management

The Company implemented the forward 13MR management and visual inspection such as usage of locks, safety hazards of using machines, regular inspection and traffic accident prevention at the production sites line and conduct production safety hazard screening, preparation and revision of a checklist tofurther improve the Company's production safety management system.

To protect the occupational health of the employees, the Company continued to make investment in advancing the work safety environment in 2016, implemented safety technology and upgraded the safety equipment and facilities by applying new safety technologies and equipment in dusty, noisy, flammable and easily explosive areas.

The photo illustrates the renovation of the polishing process facility.

EMPLOYEE CARE EVENTS

The overall company's goal is not only to offer exciting job and career opportunities, we also encourage the health and fitness as well as the team spirit amongst our employees.

Starting from May 2016, in order to let everyone be able to recreate and keep fit during spare time, the Company has organised yoga training activities in the staff activity room of the manufacturing facility in China. Through organizing such activities, the Company has enhanced the physical conditions of employees and also significantly enriched everyone's amateur life, which has helped employees reduce pressure and enhance mental health so as to feel fully relaxed and work and live with a positive mental state.

American Emlpoyee Picnic-
Piqua and Miamisburg celebrated an employee appreciation lunch and activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our US Headquarters provide a gym to their employees. The facility is easily accessible and is directly located in the main building, that makes it easy for the employees to do exercise. Amongst staying healthy and having a great balance to their paper work jobs, this offers the opportunity to easily get in touch with colleagues and encourages an informal inter-departmental communication.

COMMUNITY PARTICIPATION

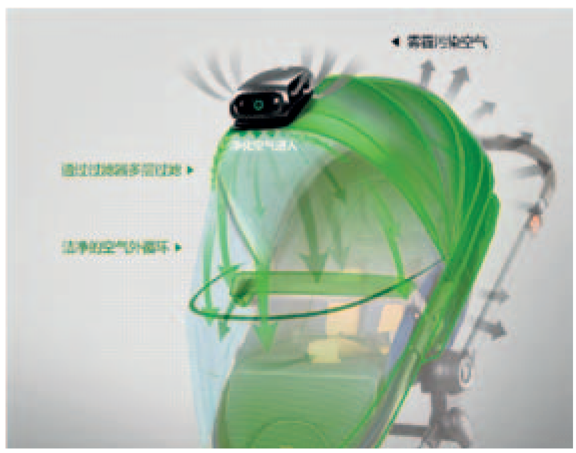
We are proud to be a company that offers the opportunity to do amazing activities and product for the world's most precious gift, our children. Currently our community investment strategy focuses on offering our high quality products to those unfortunate ones who cannot afford our products due to their living circumstances.

We actively cooperate with various institutions to focus on social needs, including post-disaster reconstruction at home and abroad, women and children career, poverty alleviation and other charitable causes. In addition to financial assistance, we also make good use of and combine our products, and actively carry out special public welfare activities which focus on children. For example:

As an example from Americas, in support of Evenflo's dedication to maintaining the wellbeing of children, donations of car seats are made to different programs throughout the country.

Fund-raising for non-profit organizations is one of our ways to support our local communities. EMEA team has donated for the refugees during the crisis in the Mediterranean.

The Company participated in the "Treat Haze in Action" launched by Xinhua News Agency and other media in 2015. In order to protect the health of children travelling during high pollution weather, the Company has researched and developed Qingfengbao protective cover to be used with baby strollers, allowing kids to breathe fresh air and preventing them from haze at any time while they go out by baby strollers. The Company also launched "Wuwangwo (SOS)" to remind drivers not to leave kids in the car and developed the high-speed car seat which ensures safer travel for children.



The world's first anti-haze baby carrier

On 31 May 2012, the second "Care for Life, Care for Child Passenger Safety" public forum of Goodbaby was held in Beijing. This was the first forum officially held after the introduction of the national standard of "Motor Vehicle Child Passenger Restraint System". From 2006 onwards, Goodbaby, in conjunction with CCTV and other mainstream media, experts, scholars and consumer representatives, has repeatedly hosted the "Care for Life, Care for Child Passenger Safety" public forum, and conducted public welfare publicity and public welfare seminars through television news, other types of social media cooperation and the Company's website, etc. to promote basic knowledge such as the importance of child safety seats and the method to use such seats.

Host public welfare forum "Care for Life, Care for Child Passenger Safety"

"Child Passenger Safety Month" held around China

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INDEXES FOR GUIDELINES ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Level, general disclosure and key performance indicators	Description	Disclosure paragraphs
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions reduction
General disclosure	Policies on the efficient use of resources (including energy, water and other raw materials)	Energy saving and consumption reduction Saving water
General disclosure	Policies on minimising the agency's significant impact on the environment and natural resources	Energy saving and consumption reduction Saving water Emissions reduction
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Human Resources Overview Joint development of global staff Employee Care Events
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.	Employee occupational health and safety.
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Joint development of global staff
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to preventing child and forced labour.	Human Resources Overview
General disclosure	Policies on managing environmental and social risks of the supply chain.	Responsible supply
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Strict control of product quality Ensure product safety Responding to customer complaints Protecting intellectual property rights
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering	Strict prohibition of corruption Completely eradicate violations
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities	Community Participation

CORPORATE GOVERNANCE REPORT

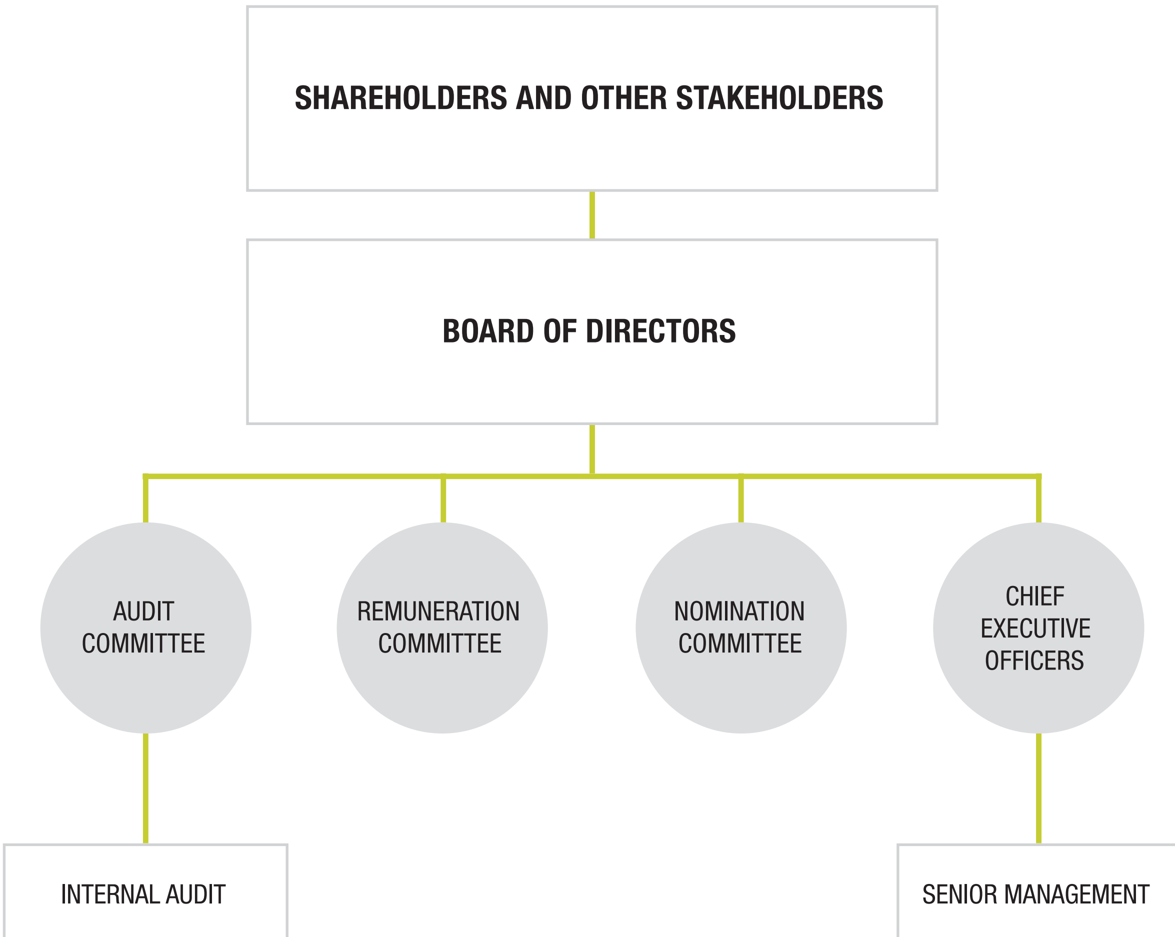

TURNADO

CORPORATE GOVERNANCE REPORT

The board (the “Board”) of directors (the “Directors”) is pleased to present this corporate governance report in the annual report for the year ended 31 December 2016. The manner in which the principles and code provisions as set out in the Corporate Governance Code (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 STRUCTURE AND PRACTICES

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. It believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and formulate its business strategies and policies as well as to enhance corporate value and accountability. The Company has applied the principles as set out in the CG Code and has also put in place certain recommended best practices as set out in the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. SONG Zhenghuan is an executive Director and the chairman of the Company and the founder of the Group. Mr. Song was the chief executive officer ("CEO") of the Company before 15 January 2016. On 15 January 2016, Mr. Martin POS, an executive Director and the deputy CEO of the Company, has succeeded Mr. Song as the CEO of the Company and Mr. Song remains as the chairman of the Board and an executive Director. The Company has established a general division of responsibilities between the chairman and CEO in writing. The Company has complied with code provision A.2.1 of the CG Code since then, as the roles of chairman and chief executive are separated and performed by different individuals.

In this connection, the Board is of the opinion that the Company has complied with all the code provisions set out in the CG Code since 15 January 2016.

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.

LEADERSHIP

BOARD COMPOSITION

The Board currently comprises 11 members, consisting of six executive Directors, one non-executive Director and four independent non-executive Directors, as follows:

Executive Directors

Mr. SONG Zhenghuan *(chairman)*
Mr. Martin POS *(Chief Executive Officer)*
Mr. LIU Tongyou *(appointed on 21 February 2017)*
Mr. Michael Nan QU
Mr. WANG Haiye
Mr. Jan REZAB *(appointed on 25 July 2016)*

Non-executive Director

Mr. HO Kwok Yin, Eric

Independent non-executive Directors

Mr. Iain Ferguson BRUCE
(chairman of audit, nomination and remuneration committees)
Mr. SHI Xiaoguang
(member of audit, nomination and remuneration committees)
Ms. CHIANG Yun
(member of audit, nomination and remuneration committees)
Mr. JIN Peng *(appointed on 21 February 2017)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 28 to 37 of this annual report. None of the members of the Board is related to one another, save and except that Mr. WANG Haiye, executive Director, is the nephew of Mr. SONG Zhenghuan, the chairman and executive Director of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and CEO are held by Mr. SONG Zhenghuan and Mr. Martin POS respectively since 15 January 2016. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

DIRECTORS' 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 Model Code throughout the year ended 31 December 2016. The Company has also established a code of conduct no less exacting than the Model Code (the "Employees Code of Conduct") 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 Code of Conduct by the employees was noted by the Company.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. The Board has delegated to the CEO, 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.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, risk management and internal control, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice of the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. 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.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company. Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate 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. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internal briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. During the year ended 31 December 2016, all Directors have provided the Company with a record of the training they received on a half yearly basis, and such records were maintained by the Company.

Name of Directors	Hours of Training in 2016
SONG Zhenghuan	6
Martin POS	6
Michael Nan QU	6
WANG Haiye	6
Jan REZAB (appointed on 25 July 2016)	1
LIU Tongyou (appointed on 21 February 2017)	n.a.
HO Kwok Yin, Eric	6
Iain Ferguson BRUCE	58
SHI Xiaoguang	6
CHIANG Yun	6
JIN Peng (appointed on 21 February 2017)	n.a.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. The non-executive Director and each of the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years.

The appointment of all Directors is subject to the provisions of retirement and rotation of Directors under the Company's articles of association. 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. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

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 2016 are set out in note 9 to the financial statements.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. HO Siu Pik has been appointed as the Company's company secretary. Its primary contact person at the Company is Ms. WANG Qi, Group Legal & Compliance Director of the Company.

The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 28 to 37 of this annual report. During 2016, the company secretary undertook over 15 hours of professional training to update her skills and knowledge.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. All members of each Board committee are independent non-executive Directors. A list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 6 to 7 of this annual report.

AUDIT COMMITTEE

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control system, performance of internal audit function engagement of and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee held two meetings on 29 March 2016 and 29 August 2016 to review the annual financial results and report in respect of the year ended 31 December 2015 and interim financial results and report for the six months ended 30 June 2016 as well as significant issues on the financial reporting and compliance procedures, continuing connected transactions, risk management and internal control system, scope of work and appointment of external auditors and whistleblowing arrangements for employees to raise concerns about possible improprieties. During the year ended 31 December 2016, the Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include determining/reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and 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.

The Remuneration Committee held three meetings during the year ended 31 December 2016. The first meeting was held on 15 January 2016 to review and determine/make recommendation to the Board on the remuneration packages of Mr. SONG Zhenghuan as executive Director and Chairman after resignation as Chief Executive Officer, Mr. Martin POS as executive Director and Chief Executive Officer and Mr. HO Kwok Yin, Eric who was re-appointed as a non-executive Director upon the expiry date of original terms of appointment on 31 January 2016. The Remuneration Committee held another meeting on 29 March 2016 to review and determine/make recommendation to the Board on the remuneration packages of other individual executive Directors and senior management for 2016. The third meeting was held on 25 July 2016 to review and determine/make recommendation to the Board on the remuneration packages of Mr. Jan REZAB as an executive Director of the Company for an initial term of three years from 25 July 2016.

NOMINATION COMMITTEE

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors. External recruitment professionals might be engaged to carry out recruitment and selection process when necessary.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee held three meetings during the year ended 31 December 2016. The first meeting was held on 15 January 2016 to review the re-designation of Mr. Martin POS from Deputy Chief Executive Officer to Chief Executive Officer to succeed Mr. SONG Zhenghuan, and the renewal of terms of appointment of Mr. HO Kwok Yin, Eric. Another meeting was held on 29 March 2016 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The third meeting was held on 25 July 2016 to review the appointment of Mr. Jan REZAB as an executive Director.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board at a board meeting held on 23 August 2013. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience. The Nomination Committee will discuss and agree on the measurable objectives for achieving diversity on the Board and recommend candidate(s) to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2016 has covered the aforesaid matters.

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.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2016 is set out in the table below:

Name of Director	Attendance/Number of Meetings in 2016				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
SONG Zhenghuan	4/4	N/A	N/A	N/A	1/1
Martin POS	4/4	N/A	N/A	N/A	0/1
Michael Nan QU	4/4	N/A	N/A	N/A	0/1
WANG Haiye	4/4	N/A	N/A	N/A	0/1
Jan REZAB (1)	1/1	N/A	N/A	N/A	0/0
HO Kwok Yin, Eric	4/4	N/A	N/A	N/A	1/1
Iain Ferguson BRUCE	4/4	2/2	3/3	3/3	1/1
SHI Xiaoguang	4/4	2/2	3/3	3/3	1/1
CHIANG Yun	4/4	2/2	3/3	3/3	1/1

Note (1) : Appointed on 25 July 2016, one board meeting was held after his appointment.

Apart from regular Board meetings, the chairman also held a meeting solely with the non-executive Directors (including independent non-executive Directors) on 29 March 2016.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 92 to 96.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to safeguard corporate governance through monitoring and reviewing the effectiveness of the risk management and internal control systems regularly through the Audit Committee. Such systems are designed to identify, assess and report on potential risk areas and implement control measures to mitigate rather than eliminate the risks to achieve business objectives on reasonable level but no absolute assurance against material misstatement or loss. The Audit Committee reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists the Board in fulfilling its oversight and corporate governance roles in the Group's risk management and internal controls, and the resources of the finance and internal audit functions.

The risk management and internal control systems of the Group are 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 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 risk management and internal control systems 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/responsible senior executive prior to commitment in all material matters

CORPORATE GOVERNANCE REPORT

- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget

- Review and evaluation of the control process and monitoring of any risk factors on a regular basis by the management; and report the same to the Audit Committee on any findings and measures to address the variances and identified risks.

- Set up group risk management system and embed risk management as part of all the organizational processes

During 2016, the Company has taken various actions to enhance the risk management systems with the following key improvements:

1) The Company has established a set of new Corporate Governance policies to enhance the corporate governance foundation including Risk Management and Internal Control Guideline, Internal Audit Guideline, Employee Non-Compete Policy, Connected Transactions Policy, Business Continuity Management Policy, Delegation of Authority, etc.

2) In order to embed the risk management systems into the core operating practices of the business, the Company reviewed and assessed the key controls to address the key business risks in a number of core business processes including procurement to payment, sales to collection and financial reporting, etc. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews were recorded in the Risk Control Matrix (RCM) for monitoring and for regular reporting to the senior management and directors of the Company.

3) The Group Internal Audit has also embedded risk management into the internal audit planning stage and has prepared the annual internal audit plan based on a comprehensive risk analysis over the Company. Strategic, operational, compliance and financial risks are considered and discussed with management team in the process.

During 2016, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Company has established a set of Corporate Governance policies to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited, and to improve the effectiveness of its risk management and internal control systems. Among the mentioned policies, the key policies are illustrated as the following.

CODE OF BUSINESS CONDUCT

All staff of the Company are subject to the Code of Business Conduct. It provides guidance on matters relating to legal compliance, conflict of interest, confidential information, fair competition, business opportunities, career opportunities, as well as environment, health and safety. The code promulgates ethical values in business activities and requires employees to adhere to it when discharging their delegated duties.

WHISTLEBLOWING POLICY

The Audit Committee has established and oversees a whistleblowing policy. In line with that commitment, the Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to come forward and voice those concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

DISCLOSURE POLICY

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

CONNECTED TRANSACTION POLICY

The Connected Transaction Policy is established to provide consistent group-wide rules on the identification, assessment and approval and disclosure of connected transactions, in compliance with the rules defined in Chapter 14A of the Listing Rules.

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2016 amounted to HK$8,403,000 and HK$385,000 respectively. An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2016 is set out below:

Service Category	Fees Paid/HK$ Payable
Audit Services	8,403,000
Non-audit Services	385,000
• Transfer pricing compliance review of PRC entities	257,000
• Preparation and transmission Hong Kong profits tax return service	46,000
• Assistance to the preparation and compilation of ESG report	82,000
	8,788,000

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Director, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

However, due to other commitments, three executive Directors, Mr. WANG Haiye, Mr. Michael Nan QU and Mr. Martin POS did not attend the annual general meeting held on 26 May 2016. Mr. Wang, Mr. Qu and Mr. Pos will use their best endeavours to attend future general meetings of the Company.

The 2017 annual general meeting ("AGM") of the Company will be held on 25 May 2017. The notice of AGM was sent to the 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 information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

During the year under review, the Company has not made any changes to its articles of association. An up-to-date version of the Company's articles of association is also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EGM (INCLUDING MAKING PROPOSAL(S)/ MOVING RESOLUTION(S) AT THE EGM)

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting atgeneral meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board of the Company or the company secretary of the Company (the "Company Secretary"), to require an Extraordinary General Meeting (the "**EGM**") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposal(s) or moving resolution(s) at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity(ies) and the shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Board will be asked to convene an EGM within 2 months and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the Eligible Shareholder(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- at least twenty-one (21) clear days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
- at least fourteen (14) clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Shareholders may propose a person for election as Director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send their enquiries and concerns to the Board by addressing them to the Head of Legal and Compliance Department to the Company's principal place of business in Hong Kong at Room 2001, 20th Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by post, or by email to enq_to_board@gbinternational.com.hk.

For the avoidance of doubt, shareholder(s) must deposit/send the original duly signed written enquiries or concerns (as the case may be) to the Company's aforesaid address and provide his/her/their full name(s) and contact details in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Note: The Company will not normally deal with verbal or anonymous enquiries.

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF DIRECTORS

The Board are pleased to present their report and the audited financial statements for the year ended 31 December 2016 of the Group.

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.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2016 are provided in the section headed "Chairman's Statement" on pages 8 to 13 and the section headed "Management Discussion and Analysis" on pages 14 to 27 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of this annual report.

An analysis of the Group's performance during the year ended 31 December 2016 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 14 to 27 of this annual report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the section headed "Environmental, Social and Governance" on pages 38 to 58 of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income on page 97 and page 98 respectively. The financial position as at 31 December 2016 of the Group are set out in the Consolidated Statement of Financial Position on pages 99 to 100. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 102 to 103.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 32 to the Financial Statements.

FINAL DIVIDEND

At the Board meeting held on 28 March 2017, it was proposed that a final dividend of HK$0.05 per ordinary share representing a total distribution of approximately HK$55.8 million be paid on 19 June 2017 to shareholders of the Company whose name appear on the Company's register of members on 7 June 2017. The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 25 May 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the annual general meeting and determining the members' entitlement to the proposed final dividend for the year ended 31 December 2016, the Company's register of members will be closed during the following periods respectively:

(A) For ascertaining eligibility to attend and vote at the annual general meeting:

- Latest time to lodge transfers documents for registration
4:30 p.m. on 18 May 2017 (Thursday)
- Closure of register of members
19 May 2017 (Friday) to 25 May 2017 (Thursday)

(B) For ascertaining entitlement to the proposed final dividend:

- Latest time to lodge transfers documents for registration
4:30 p.m. on 2 June 2017 (Friday)
- Closure of register of members
5 June 2017 (Monday) to 7 June 2017(Wednesday)
- Record date
7 June 2017 (Wednesday)

To be eligible to attend and vote at the annual general meeting and to qualify for the proposed final dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the respective latest time as stated above.

RESERVE

Details of the changes in reserve of the Group during the year are set out in note 34 to the Financial Statements.

As at 31 December 2016, the reserves of the Company available for distribution to shareholders was approximately HK$1,171.8 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined accounted for approximately 19.1% of the Group's total purchases. The percentages of sales for the year attributable to the Group's major customers are as follows:

– the largest customer	12.5%
– five largest customers in aggregate	37.8%

Save as disclosed herein, as far as the Company is aware, none of the Directors nor his/her 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 the our substantial shareholder.

* *For identification only*

REPORT OF THE BOARD OF DIRECTORS

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with retailers, brand owners and distributors globally. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

DONATION

During the year under review, the charitable contributions and other donations amounted to HK$314,000.

DIRECTORS

The Directors in office during the year (save and except for Liu Tongyou and Jin Peng who were both appointed on 21 February 2017) and as at the date of this report were as follows:

Executive Directors
SONG Zhenghuan
Martin POS
LIU Tongyou (appointed on 21 February 2017)
Michael Nan QU
WANG Haiye
Jan REZAB (appointed on 25 July 2016)

Non-executive Director
HO Kwok Yin, Eric

Independent non-executive Directors
Iain Ferguson BRUCE
CHIANG Yun
SHI Xiaoguang
JIN Peng (appointed on 21 February 2017)

Further details of the Directors and senior management are set forth in the section "Directors and Senior Management" of this annual report.

In accordance with the articles of association of the Company, Mr. Martin POS, Mr. WANG Haiye, Mr. Iain Ferguson BRUCE, Mr. Jan REZAB, Mr. LIU Tongyou and Mr. JIN Peng will retire in the forthcoming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming annual general meeting.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming 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 37 to the Financial Statements and in the section "Connected transactions" below, there was no other contracts of significance 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 Company's prospectus for global offering dated 11 November 2010 (the "Prospectus") under the section headed "Relationship with Our Controlling Shareholders".

As at the date of this annual report, CRF Enterprises Limited, Pacific United Developments Limited, CRF Investments Limited and Arc Capital Holdings Limited held, together directly and indirectly, less than 30% of the issued share capital of the Company and therefore the undertakings of these four entities and Ms. FU Jingqiu under the Deed of Non-Competition ceased to have any effect.

Each of Mr. SONG Zhenghuan, Ms. CHIANG Yun and Mr. WANG Haiye has provided an annual declaration on his/her 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 Mr. Song, Ms. Chiang and Mr. Wang has complied with the Deed of Non-Competition for the year ended 31 December 2016.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants (including (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries) 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.

REPORT OF THE BOARD OF DIRECTORS

During the year under review and on 30 August 2016, 5,000,000 share options were granted under the Share Option Scheme. Up to 31 December 2016, 11,438,000 share options had lapsed and 6,531,000 share options had been exercised. As at 31 December 2016, 74,959,500 share options were outstanding. Movements of the share options granted during the year ended 31 December 2016 were as follows:

Category of grantee	No. of share options **outstanding** at the beginning of the period	No. of share options **granted** during the period	No. of shares **acquired on exercise** of the share options during the period	No. of share options **cancelled** during the period	No. of share options **lapsed** during the period	No. of share options **exercised** during the period	No. of share options **outstanding** at the end of the period	**Date of Grant**	Period during which share options are **exercisable**	**Exercise price** per share (HK$)	**Closing price** of the shares immediately before the date of grant (HK$)
Employees of the subsidiaries of the Company	18,678,500	0	0	0	338,000	6,531,000	11,809,500	3 January 2012	(i) **218,000** share options: 3 January 2013 to 2 January 2018 (ii) **1,927,500** share options: 3 January 2015 to 2 January 2018 (iii) **2,671,200** share options: 3 January 2016 to 2 January 2018 (iv) **6,992,800** share options: 3 January 2017 to 2 January 2018	2.12	2.12
Directors of the Company, employees of the Group and Ms. FU Jingqiu (Chairwoman of the Group's largest distributor in the PRC and a substantial shareholder of the Company)	43,400,000	0	0	0	7,400,000	0	36,000,000	29 September 2014	(i) **11,626,667** share options: 29 September 2017 to 28 September 2024 (ii) **12,746,667** share options: 29 September 2018 to 28 September 2024 (iii) **11,626,666** share options: 29 September 2019 to 28 September 2024	3.58	3.40
Eligible participants	25,850,000	0	0	0	3,700,000	0	22,150,000	7 October 2015	(i) **7,383,333** share options: 7 October 2018 to 6 October 2025 (ii) **7,383,333** share options: 7 October 2019 to 6 October 2025 (iii) **7,383,334** share options: 7 October 2020 to 6 October 2025	3.75	3.75

Category of grantee	No. of share options outstanding at the beginning of the period	No. of share options granted during the period	No. of shares acquired on exercise of the share options during the period	No. of share options cancelled during the period	No. of share options lapsed during the period	No. of share options exercised during the period	No. of share options outstanding at the end of the period	Date of Grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing price of the shares immediately before the date of grant (HK$)
Director of the Company	0	5,000,000	0	0	0	0	5,000,000	30 August 2016	(i) **1,666,667** share options: 30 August 2017 to 29 August 2023 (ii) **3,333,333** share options: 30 August 2018 to 29 August 2023	3.87	3.87

The Company estimates the fair value of options granted using binomial tree model. The weighted average fair value of options granted during the year ended 31 December 2016, measured as at the date of grant, was approximately HK$1.18.

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share based compensation expense. The following assumptions were used to derive the fair values of options granted in 2016:

Dividends yield (%)	1.79
Spot stock price (HK$ per share)	3.87
Historical volatility (%)	35.55
Risk-free interest rate (%)	0.82
Expected life of option (year)	7
Weighted average share price (HK$ per share)	3.87

REPORT OF THE BOARD OF DIRECTORS

As at 31 December 2016, the total number of shares available for issue under the Share Option Scheme was 9,911,500, which represented 0.88% of the shares in issue as at the date of this annual report.

The options granted 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 2016, the interest or short positions of the Directors or chief executives of the Company then in office 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, 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/ Beneficial owner	260,390,000 (L)	23.35%
Mr. Martin Pos	Beneficial owner	41,433,498 (L)	3.71%
Mr. Michael Nan Qu	Beneficial owner	2,400,000 (L)	0.21%
Mr. Wang Haiye	Beneficial owner	2,400,000 (L)	0.21%
Mr. Jan Rezab	Beneficial owner	5,000,000 (L)	0.44%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,000,000 (L)	0.08%
Mr. Iain Ferguson Bruce	Beneficial owner	800,000 (L)	0.07%
Mr. Shi Xiaoguang	Beneficial owner	800,000 (L)	0.07%
Ms. Chiang Yun	Beneficial owner	800,000 (L)	0.07%

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.

(3) Each of the Directors is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the SFO in respect of the Share Options of the Company granted to him/her, details are as follows:

Name of Director	Number of Share Options granted
Mr. Song Zhenghuan	1,390,000
Mr. Martin Pos	2,400,000
Mr. Michael Nan Qu	2,400,000
Mr. Wang Haiye	2,400,000
Mr. Jan Rezab	5,000,000
Mr. Ho Kwok Yin, Eric	1,000,000
Mr. Iain Ferguson Bruce	800,000
Mr. Shi Xiaoguang	800,000
Ms. Chiang Yun	800,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2016, 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	Approximate Percentage of Shareholding
Pacific United Developments Limited	Beneficial owner	259,000,000 (L)	23.23%
Cayey Enterprises Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	23.23%
Credit Suisse Trust Limited (Note 2)	Trustee	259,000,000 (L)	23.23%
Grappa Holdings Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	23.23%
Ms. Fu Jingqiu ("Ms. Fu") (Notes 2 & 3)	Settlor/beneficiary of a trust/Beneficial owner	260,390,000 (L)	23.35%
FIL Limited	Investment manager	99,381,000 (L)	8.91%
Pioneer Investments Management Limited	Investment manager	69,224,000 (L)	6.21%

Notes:

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

(2) Pacific United Developments Limited is owned as to approximately 51.19% by Cayey Enterprises Limited, which in turn is, as at 31 December 2016, 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) Ms. Fu is deemed to have an interest in the 1,390,000 underlying Shares of the Company within the meaning of Part XV of the SFO in respect of the Share Options of the Company granted to her.

REPORT OF THE BOARD OF DIRECTORS

SUBSIDIARIES

The Group's operations are substantially conducted in the PRC, Germany and the United States through its direct or indirect subsidiaries. Details of the principal subsidiaries of the Company as at 31 December 2016 are set out in note 1 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 ended 31 December 2016.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2016 set out in note 37 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.

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) First Pingxiang Lease Agreement

On 28 December 2012, Goodbaby Group Pingxiang Co., Ltd.* (好孩子集團平鄉有限公司) ("GGPX") and Goodbaby Child Products Pingxiang Co., Ltd.* (好孩子兒童用品平鄉有限公司) ("GCPX") entered into a lease agreement (the "2012/13/14 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Properties") to GCPX for a three-year period commencing from 1 January 2013 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPX entered into a renewal agreement (the "First Pingxiang Lease Agreement") to renew the 2012/13/14 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018.

Pursuant to the First Pingxiang Lease Agreement, GGPX agreed to lease the Properties to GCPX principally for production and for manufacturing plants and manufacturing support facilities purposes. The aggregate annual rental of the Properties payable by GCPX to GGPX was determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Properties under the First Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

GCPX has an option to renew the First Pingxiang Lease Agreement at any time within the three month period before the expiry date of the First Pingxiang Lease Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

The rental payable by GCPX to GGPX in relation to the Properties for the year ended 31 December 2016 was RMB8,420,000 (approximately HK$9,845,000).

The annual caps under the First Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB8,626,000, RMB9,001,000 and RMB9,376,000, respectively.

GGPX is a wholly-owned subsidiary of 好孩子集團有限公司(Goodbaby Group Co., Ltd.*) ("GGCL"), a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the First Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

(b) Second Pingxiang Lease Agreement

On 18 March 2014, GGPX and Goodbaby Child Products Co., Ltd.* (好孩子兒童用品有限公司) ("GCPC") entered into a lease agreement (the "2014 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Property V") to GCPC commencing from 1 April 2014 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPC entered into a renewal agreement (the "Second Pingxiang Lease Agreement") to renew the 2014 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018. Pursuant to the Second Pingxiang Lease Agreement, GGPX agreed to lease Property V to GCPC principally for the usage as logistics warehouse purpose.

The aggregate annual rental payable by GCPC to GGPX under the Second Pingxiang Lease Agreement is determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Property V under the Second Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

GCPC has an option to renew the Second Pingxiang Lease Agreement at any time within the three month period before the expiry date of the Second Pingxiang Lease Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

The rental payable by GCPC to GGPX in relation to the Property V for the year ended 31 December 2016 was RMB1,577,000 (approximately HK$1,844,000).

The annual caps under the Second Pingxiang Lease Agreement for each of the three years ending 31 December 2018 are RMB1,616,000, RMB1,693,000 and RMB1,770,000, respectively.

GGPX is a wholly-owned subsidiary of GGCL, a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Second Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

REPORT OF THE BOARD OF DIRECTORS

(c) Kunshan Lease Agreement

On 7 October 2015, GCPC and GGCL entered into a lease agreement (the "Kunshan Lease Agreement") to renew the lease agreement dated 11 November 2010, pursuant to which GGCL agreed to lease certain premises located in Kunshan City, Jiangsu Province, PRC (the "Property VI") to GCPC for a three-year period commencing from 1 January 2016 and ending on 31 December 2018, for the usage as staff dormitories purpose.

The aggregate annual rental of the Property VI payable by GCPC to GGCL under the Kunshan Lease Agreement is determined with reference to the market rental rate as well as the qualities of the properties in the area surrounding the properties under the Kunshan Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

GCPC has an option to renew the Kunshan Lease Agreement at any time within the three month period before the expiry date of the Kunshan Lease Agreement for a further period of three years, on the condition that all applicable disclosure and/or shareholders' approval requirement under the Listing Rules shall have been complied with by the Company.

The rental payable by GCPC to GGCL in relation to the Property VI for the year ended 31 December 2016 was RMB683,000 (approximately HK$799,000).

The annual caps under the Kunshan Lease Agreement for each of the three years ending 31 December 2018 are RMB736,000, RMB773,000 and RMB812,000, respectively.

GGCL is a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGCL is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Kunshan Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

(d) 2015 Gift Supply Agreement

On 28 December 2012, GCPC and Goodbaby China Commercial Co., Ltd.* (好孩子(中國)商貿有限公司) ("GCCL") entered into a supply agreement (the "2012 Gift Supply Agreement"), pursuant to which GCCL agreed to supply infants' and children's products such as nursing products, paper products or toys (the "Gift Products") to GCPC to be used as free gifts for sales of GCPC's products, for a period of three years commencing on 1 January 2013 to 31 December 2015. On 7 October 2015, GCPC and GCCL entered into a renewal agreement (the "2015 Gift Supply Agreement") to renew the 2012 Gift Supply Agreement for a fixed term of 3 years commencing from 1 January 2016 and ending on 31 December 2018.

Pursuant to the 2015 Gift Supply Agreement, GCCL agreed to supply the Gift Products to GCPC to be used as free gifts for sales of GCPC's products. The purchase prices of the Gift Products payable by GCPC to GCCL under the 2015 Gift Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those purchased from other independent suppliers of similar products. The terms of the 2015 Gift Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business. Upon receipt of the monthly invoice from GCCL, GCPC shall pay such transaction amount to GCCL within seven business days thereon.

Within three business days upon receipt by GCCL of purchase orders from GCPC, GCPC may collect at its own costs such Gift Products from the warehouse of GCCL, or GCCL may deliver such Gift Products to such venue of transportation receipt situated at Shanghai or Kunshan City, Jiangsu Province as designated by GCPC, for GCPC to transport at its own costs.

The purchases made by GCPC from GCCL in relation to the Gift Products for the year ended 31 December 2016 was RMB37,000 (approximately HK$44,000).

The annual caps under the 2015 Gift Supply Agreement for each of the three years ending 31 December 2018 are RMB7,000,000, RMB8,000,000 and RMB9,000,000, respectively.

GCCL is an indirect wholly owned subsidiary of Goodbaby China Holdings Limited (好孩子中國控股有限公司) ("GCHL"), which is held as to approximately 87.3% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCCL is an associate of Mr. Song under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the 2015 Gift Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcement of the Company dated 7 October 2015.

* *For identification purpose only*

CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS OF THE LISTING RULES

(e) GCHL Master Supply Agreement

On 29 October 2012, GCPC entered into an agreement (the "2013 GCCL Supply Agreement") with GCCL for a period commenced from 1 January 2013 and ended on 31 December 2015, pursuant to which GCPC agreed to supply strollers, children's car seats, cribs, children's bicycles and other durable juvenile products (the "Products") to GCCL for domestic sales. On 7 October 2015, to further optimise and unify the Group's business relationship with GCCL, Goodbaby (Hong Kong) Limited ("GBHK"), which in turn holds 100% interest in GCPC and GCHL which in turn indirectly holds 100% interest in GCCL, entered into a master supply agreement (the "GCHL Master Supply Agreement"), pursuant to which GBHK agreed to supply, or procure its subsidiaries to supply, the Products to GCHL and its subsidiaries for domestic sales for a period commencing from 1 January 2016 and ending on 31 December 2018, and GCHL agreed to distribute or procure its subsidiaries to distribute the Products supplied by GBHK and its subsidiaries in the domestic market.

The purchase prices of the Products payable by GCHL and its subsidiaries to GBHK or its subsidiaries under the GCHL Master Supply Agreement are determined based on the prevailing market prices and in accordance with the pricing policies of continuing connected transactions of the Group as detailed in the announcement of the Company dated 7 October 2015 and will be no less favorable to the Group than those offered to independent purchasers of the Group's products. The terms of the GCHL Master Supply Agreement were concluded after arm's length negotiations and were based on normal commercial terms in the parties' ordinary course of business.

REPORT OF THE BOARD OF DIRECTORS

For the period from 1 January 2016 to 31 December 2016, payment pursuant to the GCHL Master Supply Agreement has been made within 120 days upon the date of invoice. Thereafter, payment term pursuant to the GCHL Master Supply Agreement would be determined based on annual review and adjustment based on the actual turnover days of the accounts receivable in the previous year, but in any event not more than 120 days.

Within three business days upon receipt by GBHK and/or its subsidiaries of specific purchase orders from GCHL and its subsidiaries, GCHL and its subsidiaries may collect at its own costs such Products from the warehouse of GBHK and/or its subsidiaries, or GBHK and/or its subsidiaries may deliver such Products to such venue of transportation receipt situated in Shanghai or Kunshan City, Jiangsu Province as designated by GCHL and its subsidiaries, for GCHL and/or its subsidiaries to transport at its own costs.

The transaction between GBHK and its subsidiaries and GCHL and its subsidiaries in relation to the Products sold for the year ended 31 December 2016 was RMB666,259,000 (approximately HK$778,977,000).

The annual caps under the GCHL Master Supply Agreement for each of the three years ending 31 December 2018 are RMB1,110,000,000, RMB1,450,000,000 and RMB1,870,000,000, respectively.

GCHL is a company which is held as to approximately 87.3% by companies ultimately controlled by the Chairman and his spouse, including PUD, a substantial shareholder of the Company. Accordingly, GCHL is an associate of the Chairman under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the GCHL Master Supply Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the circular of the Company dated 5 November 2015.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

Pursuant to Rule 14A.56 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.55 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) on normal commercial terms or better; 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 POLICY

As at 31 December 2016, the Group has a total of 11,181 full-time employees (as at 31 December 2015, the Group had a total of 12,318 full-time employees). For the year ended 31 December 2016, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,386.5 million (for the year ended 31 December 2015, costs of employees, excluding directors' emoluments, amounted to a total of HK$1,284.6 million). 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 provides its employees with a defined contribution mandatory provident fund for retirement benefits and welfare schemes as required by the applicable local laws and regulations.

The Company has also adopted a share option scheme on 5 November 2010. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

While maintaining our own production and operation capabilities, the Company also has reinforced the fusion of environmental protection, safety, health and social responsibility into our corporate development strategies by establishing the ESG report working team in line with our business development. The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, production and operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers our staff, shareholders and potential investors, government authorities, suppliers, community individuals, media and consumers as our key stakeholders, and values highly the expectations and opinions of our stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an independent ESG report has been published.

The Company has always adhered to our core corporate values and our mission to improve the living environment for children and enhance the quality of life for children by providing high quality products and services. We have achieved continuous innovations in technology, management and concepts; established an inspection center recognised by the State, controlled product quality strictly and ensured the safety of products; identified problems and enhanced customer satisfaction continuously through such measures as customer complaints system and customer satisfaction survey and analysis; protected our intellectual property rights through management and maintenance of global intellectual properties; strived to realise green production through the continuous establishment of a sound management mechanism for environmental protection; promoted the mutual development and growth of our staff and the Company through our endeavors to create a creative, insightful, healthy and happy working environment; actively performed corporate social responsibilities through such measures as providing assistance to the low-income groups. For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the Environmental, Social and Governance section in the annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

CONFIRMATION OF INDEPENDENT STATUS

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

REPORT OF THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE

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

INDEMNITY AND INSURANCE PROVISIONS

The Company has arranged appropriate directors' and officers' liability insurance in respect of legal action against Directors. Also, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

EXCHANGE RISKS

Details of the exchange risks are set out in note 40 to the Financial Statements.

PURCHASE, SALE OR RE-PURCHASE OF SHARES

There was no purchase, sale and re-purchase of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2016.

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.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

There is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules since the publication of the 2016 interim report of the Company.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 41 to the Financial Statements.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five financial years is set out on pages 207 to 208 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 for the year ended 31 December 2016.

AUDITORS

The financial statements of the Company for the year ended 31 December 2016 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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

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

28 March 2017

INDEPENDENT AUDITORS' REPORT

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

OPINION

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 97 to 206, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by HKICPA, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and intangible assets with indefinite lives carrying amounts	
Goodwill and other intangible assets with indefinite lives mainly arose from the acquisitions of two subsidiaries of Evenflo and Columbus units, amounting to HK$793 million and HK$458 million as at 31 December 2016, which represented 14% and 8% of the total assets respectively. The Group is required to perform impairment testing on goodwill and intangible assets with indefinite life annually. Management's assessment process involves significant estimates and judgements, including assessing expected future cash flow forecasts, associated growth rates, budgeted gross margins and the discount rates applied. The Group's disclosures about goodwill and intangible assets with indefinite lives are included in Note 2.4, Note 3 and Note 16 to the financial statements.	Our audit procedures included an assessment of the evaluation and testing of key assumptions, methodologies, cash-generating unit determination, cash flow forecast and other data used by the Group. In performing audit procedures, we checked the sales assumption to historical actual sales with growth rates comparable to the market and assessed budgeted gross margin against historical trend and the discount rate assumption against cost of equity and cost of debt of comparable companies. We also involved our internal specialists to assist us in assessing the assumptions and methodologies used by the Group. We also focused on the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is more sensitive.
Deferred tax assets	
The Group recorded net deferred tax assets amounting to HK$131 million in the financial statements resulting from temporary differences and losses carried forward as disclosed in Note 30, to the financial statements, which represented 5% of the total non-current assets. The Group recognises these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. Assessing future taxable profit is complex and requires significant management estimates, in particular on the assumptions about the expected future market and economic conditions. The Group's disclosures about deferred tax assets are included in Note 2.4, Note 3 and Note 30 to the financial statements.	Our audit procedures included evaluating the assumptions and methodologies used by the Group to determine the expected future taxable income per tax jurisdiction, and involving internal tax specialists. Furthermore, we assessed whether the information used was derived from the Company's forecast that has been subject to internal reviews and was approved by management and was internally consistent with historical data where available.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for product liabilities	
As at 31 December 2016, the provisions for product liabilities amounted to HK$112.2 million, which represented 4% the total liabilities respectively. The Group made provisions for product liabilities in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The provision for product liabilities involved significant management estimation and judgments based upon estimated future costs to be incurred in claims. The Group engaged an external valuation expert to perform on the estimation of product liabilities obligation, and there were significant estimates included in the management's analysis and projection, such as discount rates used and an assessment on possible outcome of the claims based on historical experience. The Group's disclosures about provision for product liabilities are included in Note 2.4, Note 3 and Note 27 to the financial statements.	Our audit procedures included understanding the basis for the provisions made and assessing the consistency of the provisioning policy applied. We also assessed management estimation and key assumptions by reference to the historical experience and trend, and checked subsequent claims after the end of the reporting period. In performing our audit procedures, we involved our internal valuation specialists to assess the valuation methodology used and key assumptions applied to calculate the provision and to perform a sensitivity analysis. We also obtained confirmations from external legal counsels for those claims under the progress regarding product liabilities.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEUNG, Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

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

SONG Zhenghuan
Director

WANG Haiye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	Share capital	Share premium	Deferred share reserve	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(HK$'000)												
	Note 32		*Note 34*		*Note 34*		*Note 29*	*Note 34*					
At 1 January 2015	11,010	1,183,406	15,524	20,873	140,270	168,006	(6,511)	153,975	–	610,351	2,296,904	30,756	2,327,660
Profit for the year	–	–	–	–	–	–	–	–	–	197,434	197,434	5,238	202,672
Remeasurement effects of defined benefit plans	–	–	–	–	–	–	325	–	–	–	325	–	325
Exchange differences on translation	–	–	–	–	–	(128,419)	–	–	–	–	(128,419)	(971)	(129,390)
Total comprehensive income for the year	–	–	–	–	–	(128,419)	325	–	–	197,434	69,340	4,267	73,607
Deferred shares	45	15,479	(15,524)	–	–	–	–	–	–	–	–	–	–
Share options exercised	31	9,193	–	(2,680)	–	–	–	–	–	–	6,544	–	6,544
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	7,821	7,821
Profit appropriation	–	–	–	–	9,229	–	–	–	–	(9,229)	–	–	–
Equity-settled share option arrangements	–	–	–	12,714	–	–	–	–	–	–	12,714	–	12,714
Put option over non-controlling interests	–	–	–	–	–	–	–	–	(20,244)	–	(20,244)	–	(20,244)
At 31 December 2015 and 1 January 2016	11,086	1,208,078*	–*	30,907*	149,499*	39,587*	(6,186)*	153,975*	(20,244)*	798,556*	2,365,258	42,844	2,408,102
Profit for the year	–	–	–	–	–	–	–	–	–	207,390	207,390	4,850	212,240
Remeasurement effects of defined benefit plans	–	–	–	–	–	–	4,345	–	–	–	4,345	–	4,345
Exchange differences on translation	–	–	–	–	–	(111,387)	–	–	–	–	(111,387)	(1,757)	(113,144)
Total comprehensive income for the year	–	–	–	–	–	(111,387)	4,345	–	–	207,390	100,348	3,093	103,441
Dividends	–	(55,679)	–	–	–	–	–	–	–	–	(55,679)	(8,055)	(63,734)
Share options exercised	65	19,447	–	(5,666)	–	–	–	–	–	–	13,846	–	13,846
Profit appropriation	–	–	–	–	11,466	–	–	–	–	(11,466)	–	–	–
Equity-settled share option arrangements	–	–	–	16,507	–	–	–	–	–	–	16,507	–	16,507
As at 31 December 2016	**11,151**	**1,171,846***	**–***	**41,748***	**160,965***	**(71,800)***	**(1,841)***	**153,975***	**(20,244)***	**994,480***	**2,440,280**	**37,882**	**2,478,162**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION

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

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

INFORMATION ABOUT SUBSIDIARIES

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

Name of company	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	–	HK$1,000	Investment holding and sales agent company
Goodbaby Children's Products, Inc. ("GCPI")	The United States of America ("US"), 16 May 2002	–	100%	US$200,000	R&D services and preliminary product design service
Goodbaby Child Products Co., Ltd. ("GCPC")	The People's Republic of China ("PRC"), 18 November 1994	–	100%	US$52,000,000	Manufacturing, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
Ningbo Goodbaby Child Products Co., Ltd. ("GCPN")	PRC, 9 September 1996	–	85%	RMB10,000,000	Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Paragon Child Product Co., Ltd. ("PCPC")	PRC, 2009	–	100%	RMB10,000,000	Manufacturing, distribution and sale of bicycles, sports utilities, e-cars and wooden products.
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX")	PRC, 26 December 2011	–	100%	RMB2,000,000	Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

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

Name of company	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Jiangsu EQO Testing Services Co., Ltd. ("EQTC")	PRC, 30 November 2012	–	100%	RMB5,000,000	Testing of children's products, tools, electronic products and advisory for risk valuation of product quality
Serena Merger Co., Inc. ("SERE")	U.S., 16 May 2014	–	100%	US$1,000	Investment holding
Evenflo Company, Inc. ("EFCD")	U.S., 1 October 1992	–	100%	US$86,500	Manufacture of baby care products
Muebles Para Ninos De Baja, S.A. De C.V. ("EFMX")	Mexico, 29 June 1987	–	100%	Peso1,720,000	Manufacture of baby care products
Evenflo Canada Inc. ("EFCA")	Canada 18 March 1991	–	100%	US7,000	Manufacture of baby care products
Columbus Trading-Partners GmbH & Co. KG ("CTPE")	Germany, 26 February 2016	–	100%	EUR100	Trading and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Goodbaby Czech Republic s.r.o. ("GBCZ")	Germany, 25 August 2016	–	100%	CZK200,000.00	IT services and a share service center
Goodbaby (Europe) Gmbh & Co KG ("GEGC")	Germany, 28 January 2014	–	100%	EUR100	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
Cybex GmbH ("CBGM")	Germany, 5 March 2014		94.5%	EUR33,400	Trading of car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
GB GmbH ("GBGM")	Germany, 21 August 2015	–	100%	EUR25,000	Investment holding
Columbus Trading Partners USA Inc. ("CBUS")	U.S., 24 November 2014	–	100%	US$1	Investment holding
Columbus Trading Partners Scandinavia A/S ("CBDK")	Denmark, 1 September 2015	–	70%	DKK500,000	Trading of car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children and any related activities of the board of directors

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.1 BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

4 No mandatory effective date determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

(A) CLASSIFICATION AND MEASUREMENT

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

(B) IMPAIRMENT

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or joint venture is included as part of the Group's investment in associate or a joint venture.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for controls the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All of the components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

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2.4 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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of items of property, plant and equipment.

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

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

	Estimated useful lives	Estimated residual value
Freehold land	Indefinite	—
Buildings	20 years	0-10%
Plant and machinery	5-15 years	0-10%
Motor vehicles	5 years	0-10%
Furniture and fixtures	3-15 years	—
Leasehold improvements	The lesser of lease terms and useful lives	—

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

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

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks are capitalised and amortised using the straight-line method over their estimated useful lives of ten to thirty years except for certain trademarks amounting to HK$458,210,000 (2015: HK$470,640,000) acquired through the business combinations of Columbus Holding GmbH and WP Evenflo Group Holdings, Inc. whose useful lives are indefinite.

Computer software

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

Patents, non-compete agreement and customer relationship

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables, and interest-bearing bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Loans and borrowings

After initial recognition, interest-bearing borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Put option over non-controlling interests

During the process of acquiring the majority equity interests of a subsidiary, the Group provided the non-controlling shareholder the right to dispose of its equity interests to the Group. The equity interests in the subsidiary held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiary held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as the financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

PROVISIONS

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT GRANTS

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

REVENUE RECOGNITION

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 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 labour and other costs of personnel directly engaged in providing the services and attributable overheads.

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

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

SHARE-BASED PAYMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS

Retirement benefits

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

Pension schemes

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

The Group's U.S. operations and most other non-U.S. subsidiaries have separate defined contribution plans. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Group contributions to the plans are based on employee contributions or compensation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Defined benefit plans

The Group operates defined benefit pension plans with details summarised in note 29. The costs of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the consolidated profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

DIVIDENDS

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

These financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and a joint venture are currencies other than the HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

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

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

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

3. SIGNIFICANT ACCOUNTING, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

ESTIMATION UNCERTAINTY

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose suitable discount rates in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2016 was approximately HK$811,662,000 (2015: HK$819,619,000). Further details are given in note 16.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING, ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the credit trade and worthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 20.

Write-down of inventories

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

Provisions

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

The Group also makes provision for product liabilities which is based on estimated future costs to be incurred in claims. There are significant estimates included in the projection, which are the discount rate used and assessment on the possibility of outcome of the claims based on historical experience.

Defined benefit plans

The Group operates and maintains defined retirement benefit plans. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rate and healthcare trend rates.

Additional information regarding the retirement benefit plan is disclosed in note 29 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Year ended 31 December 2016

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2015

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

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

4. OPERATING SEGMENT INFORMATION (Continued)

INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2016, revenue from sales to a major customer of 3rd party accounting for 10% or more of the total net sales of the Group is HK$ 738,414,000. The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and other durable juvenile products segments, including sales to a group of entities which are known to be under common control with this customer. There was no other single customer accounted for 10% or more of the total net sales of the Group, except a related party disclosed in note 37 (b). During the year ended 31 December 2015, there was no single customer of 3rd party accounted for 10% or more of the total net sales of the Group.

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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6. FINANCE INCOME

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

7. FINANCE COSTS

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

8. PROFIT BEFORE TAX

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

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

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9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

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

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2016

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
	(HK$'000)				
Executive directors:					
SONG Zhenghuan	–	3,528	–	–	3,528
Martin POS	–	6,324	–	–	6,324
Michael, QU Nan	–	3,166		60	3,226
WANG Haiye	–	3,867	–	11	3,878
Jan REZAB*		1,121	280	181	1,582
	–	18,006	280	252	18,538
Non-executive director:					
ERIC, Ho Kwok Yin	646	–	–	–	646

* The Board announced the appointment of Mr. Jan Rezab as executive directors, with effect from 25 July 2016.

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9. DIRECTORS' REMUNERATION (Continued)

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

2015

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

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

10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

None of the directors or highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2015: None).

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX

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

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

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the year. The state income tax rates are 5% and 9.99% in the respective states where the subsidiary operates, and the federal income tax rates range from 34% to 35% on a progressive basis.

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

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

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

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

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

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") is qualified as a "High and New Technology Enterprise" and are entitled to a preferential tax rate of 15% from 2014 to 2016.

11. INCOME TAX (Continued)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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12. DIVIDENDS

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

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

13. EARNINGS PER SHARE

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

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

13. EARNINGS PER SHARE (Continued)

The calculation of earnings per share is based on:

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

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

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14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2016

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK$'000)						
At 31 December 2015 and at 1 January 2016:							
Cost	562,441	840,035	10,790	307,033	69,077	36,240	1,825,616
Accumulated depreciation	(238,365)	(470,448)	(7,455)	(190,425)	(40,154)	–	(946,847)
Net carrying amount	**324,076**	**369,587**	**3,335**	**116,608**	**28,923**	**36,240**	**878,769**
At 1 January 2016, net of accumulated depreciation	324,076	369,587	3,335	116,608	28,923	36,240	878,769
Additions	19,936	68,700	1,343	50,220	13,292	110,984	264,475
Disposals	(22,956)	(31,111)	(3)	(3,033)	(1,164)	(477)	(58,744)
Depreciation provided during the year	(25,372)	(83,500)	(1,100)	(57,686)	(7,343)	–	(175,001)
Transfers	13,449	40,396	–	12,542	–	(66,387)	–
Impairment	(839)	(5,958)	–	–	–	–	(6,797)
Translation adjustments	(14,181)	(20,536)	(394)	(5,974)	(735)	(2,688)	(44,508)
At 31 December 2016, net of accumulated depreciation and impairment	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**
At 31 December 2016:							
Cost	540,890	812,824	11,209	339,032	78,155	77,672	1,859,782
Accumulated depreciation and impairment	(246,777)	(475,246)	(8,028)	(226,355)	(45,182)	–	(1,001,588)
Net carrying amount	**294,113**	**337,578**	**3,181**	**112,677**	**32,973**	**77,672**	**858,194**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2015

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2014 and at 1 January 2015:							
Cost	588,205	778,800	11,564	283,486	65,442	46,060	1,773,557
Accumulated depreciation	(225,595)	(436,541)	(6,407)	(147,656)	(36,405)	–	(852,604)
Net carrying amount	**362,610**	**342,259**	**5,157**	**135,830**	**29,037**	**46,060**	**920,953**
At 1 January 2015, net of accumulated depreciation	362,610	342,259	5,157	135,830	29,037	46,060	920,953
Additions	938	77,008	263	41,393	9,136	55,105	183,843
Acquisition of subsidiaries	–	–	–	51	–	–	51
Disposals	(138)	(5,552)	(58)	(1,155)	(126)	(6,438)	(13,467)
Depreciation provided during the year	(26,892)	(79,564)	(1,915)	(60,727)	(4,744)	–	(173,842)
Transfers	1,996	47,632	116	7,537	–	(57,281)	–
Translation adjustments	(14,438)	(12,196)	(228)	(6,321)	(4,380)	(1,207)	(38,770)
At 31 December 2015, net of accumulated depreciation	**324,076**	**369,587**	**3,335**	**116,608**	**28,923**	**36,240**	**878,769**
At 31 December 2015:							
Cost	562,441	840,035	10,790	307,033	69,077	36,240	1,825,616
Accumulated depreciation	(238,365)	(470,448)	(7,455)	(190,425)	(40,154)	–	(946,847)
Net carrying amount	**324,076**	**369,587**	**3,335**	**116,608**	**28,923**	**36,240**	**878,769**

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15. PREPAID LAND LEASE PAYMENTS

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

16. GOODWILL

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

16. GOODWILL (Continued)

IMPAIRMENT TESTING OF GOODWILL

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

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

MANUFACTURE AND EXPORT OF STROLLER-RELATED PRODUCTS UNIT

The recoverable amount of the manufacture and export of stroller-related products unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the five-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2016 was 14.0% (2015: 14.0%).

EVENFLO UNIT

The recoverable amount of Evenflo unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the five-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2016 was 10.0% (2015: 10.0%).

COLUMBUS UNIT

The recoverable amount of Columbus unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the five-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2016 was 10.5% (2015: 11.5%).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

16. GOODWILL (Continued)

NICAM UNIT

The recoverable amount of NICAM unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. A declining growth rate was used to extrapolate the cash flows beyond the five-year period. The pre-tax discount rate applied to the cash flow projections as at 31 December 2016 was 11.5% (2015: 11.5%).

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

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

"Budgeted gross margins"	—	The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.
"Discount rate"	—	The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2016

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2015 and at 1 January 2016:						
Cost	510,837	30,238	6,131	143,344	54,654	745,204
Accumulated amortisation	(24,879)	(14,026)	(2,350)	(13,663)	(8,030)	(62,948)
Net carrying amount	**485,958**	**16,212**	**3,781**	**129,681**	**46,624**	**682,256**
At 1 January 2016, net of accumulated amortisation	485,958	16,212	3,781	129,681	46,624	682,256
Additions	1,175	7,847	–	–	5,443	14,465
Disposal	–	(264)	–	–	–	(264)
Amortisation provided during the year	(696)	(5,291)	(1,180)	(9,036)	(5,440)	(21,643)
Translation adjustments	(14,998)	(527)	(142)	(1,913)	(1,368)	(18,948)
At 31 December 2016, net of accumulated depreciation	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**
At 31 December 2016:						
Cost	497,014	36,791	5,902	140,871	58,328	738,906
Accumulated amortisation	(25,575)	(18,814)	(3,443)	(22,139)	(13,069)	(83,040)
Net carrying amount	**471,439**	**17,977**	**2,459**	**118,732**	**45,259**	**655,866**

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17. OTHER INTANGIBLE ASSETS (Continued)

31 DECEMBER 2015

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2014 and at 1 January 2015:						
Cost	545,644	19,911	6,842	125,579	57,465	755,441
Accumulated amortisation	(23,922)	(9,588)	(1,254)	(5,054)	(3,714)	(43,532)
Net carrying amount	**521,722**	**10,323**	**5,588**	**120,525**	**53,751**	**711,909**
At 1 January 2015, net of accumulated amortisation	521,722	10,323	5,588	120,525	53,751	711,909
Additions	3,981	9,884	–	–	1,938	15,803
Acquisition of subsidiaries	–	–	–	25,581	–	25,581
Amortisation provided during the year	(1,029)	(3,374)	(1,242)	(9,036)	(4,689)	(19,370)
Translation adjustments	(38,716)	(621)	(565)	(7,389)	(4,376)	(51,667)
At 31 December 2015, net of accumulated depreciation	**485,958**	**16,212**	**3,781**	**129,681**	**46,624**	**682,256**
At 31 December 2015:						
Cost	510,837	30,238	6,131	143,344	54,654	745,204
Accumulated amortisation	(24,879)	(14,026)	(2,350)	(13,663)	(8,030)	(62,948)
Net carrying amount	**485,958**	**16,212**	**3,781**	**129,681**	**46,624**	**682,256**

18. OTHER LONG-TERM ASSETS

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

19. INVENTORIES

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

20. TRADE AND NOTES RECEIVABLES

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

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

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

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20. TRADE AND NOTES RECEIVABLES (Continued)

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

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

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

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

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

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

20. TRADE AND NOTES RECEIVABLES (Continued)

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

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

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

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

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21. PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

22. AVAILABLE-FOR-SALE INVESTMENTS

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

23. CASH AND CASH EQUIVALENTS

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

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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24. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

25. TRADE AND BILLS PAYABLES

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

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

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

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

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

27. PROVISION

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

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27. PROVISION (Continued)

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2016, the amount of product warranties is HK$15,466,000.

In addition, the Group estimates future cash outflows in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The amount of cash outflows is estimated based upon an annual review by management of the Group with pattern of past experience of how the Group discharged its obligation. As at 31 December 2016, the amount of product liabilities was HK$112,170,000.

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

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

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

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

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

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

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

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

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

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29. DEFINED BENEFIT PLAN LIABILITIES

(1) ERA PLAN

The Group operates a defined benefit plan named the Evenflo Retirement Account plan ("ERA Plan") in the United States. This non-contributory ERA Plan was frozen with effect from 31 August 2002 and no further benefit credits were earned after 31 July 2002. No new employees have been added to the ERA Plan since this date. For benefits earned prior to this date, the plan provides employees with pension benefits that are either based on age and compensation or are based on stated amounts for each year of service.

The ERA Plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. This includes employing the use of annuities and longevity swaps to manage the risks. The trustees decide the contribution based on the results of the annual review. The investment portfolio targets a mix of 60-65% in equity and property and 35-40% in debt instruments.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2016 by an independent actuary, a member of the Society of Actuaries in the United States, using the projected unit credit actuarial valuation method.

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

	2016	2015
Discount rate (%)	3.75%	3.95%

The actuarial valuation showed that the market value of plan assets was HK$100,836,000 and that the actuarial value of these assets represented 95% of the benefits that had accrued to qualifying employees. The deficiency of HK$5,001,000 is expected to be cleared over the remaining weighted average duration of the benefit obligation of 9.91 years.

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

A quantitative sensitivity analysis for the significant assumption as at the end of the reporting period is shown below:

	Increase in rate %	Increase/(decrease) in defined benefit obligations (HK$'000)	Decrease in rate %	Increase/ (decrease) in defined benefit obligations (HK$'000)
2016				
Discount rate	0.5	(4,252)	0.5	4,609
2015				
Discount rate	0.5	(4,587)	0.5	4,984

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in the key assumption occurring at the end of the reporting period.

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

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

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

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

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

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

2016

		Cost (charged)/credited to profit or loss				Remeasurement gains/(losses) in other comprehensive income						
	1 January 2016	Administrative expenses	(Net interest expense)/ investment income	Sub-total included in profit or loss	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange differences	31 December 2016
	(HK$'000)											
Defined benefit obligations	(110,054)		(4,182)	(4,182)	7,464	–	1,629	(1,529)	885	985	(50)	(105,837)
Fair value of plan assets	104,140	(1,420)	3,926	2,506	(7,464)	1,606	–	–	–	1,606	48	100,836
Benefit liability	**(5,914)**	**(1,420)**	**(256)**	**(1,676)**	**–**	**1,606**	**1,629**	**(1,529)**	**885**	**2,591**	**(2)**	**(5,001)**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

2015

	1 January 2015	Cost (charged)/credited to profit or loss: Administrative expense	Cost (charged)/credited to profit or loss: (Net interest expense)/ investment income	Cost (charged)/credited to profit or loss: Sub-total included in profit or loss	Benefit paid	Remeasurement gains/(losses) in other comprehensive income: Return on plan assets (excluding amounts included in net interest expense)	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income	Exchange differences	31 December 2015
	(HK$'000)											
Defined benefit obligations	(118,859)	–	(4,124)	(4,124)	9,209	–	(171)	3,008	798	3,635	85	(110,054)
Fair value of plan assets	116,230	(1,605)	4,008	2,403	(9,209)	(5,201)	–	–	–	(5,201)	(83)	104,140
Benefit liability	**(2,629)**	**(1,605)**	**(116)**	**(1,721)**	**–**	**(5,201)**	**(171)**	**3,008**	**798**	**(1,566)**	**2**	**(5,914)**

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

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

The average duration of the defined benefit obligations at the end of the reporting period was 9.91 years.

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS

Post-retirement healthcare and life insurance benefits are provided for U.S. retired employees and their dependents. Substantially all of the Group's U.S. employees may become eligible for those benefits if they reach the normal retirement age while working for the Company. The Group does not fund retiree healthcare benefits in advance and has the right to modify these plans in the future. There have been no changes in the plan provisions in 2016.

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

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

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

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

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

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

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

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29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

2016

	1 January 2016	Cost charged to profit or loss		Benefit paid	Remeasurement gains in other comprehensive income				Exchange differences	31 December 2016
		Net interest expense	Sub-total included in profit or loss		Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income		
	(HK$'000)									
Benefit obligations	(8,767)	(318)	(318)	334	116	303	233	652	(5)	(8,104)
Benefit liability	**(8,767)**	**(318)**	**(318)**	**334**	**116**	**303**	**233**	**652**	**(5)**	**(8,104)**

2015

	1 January 2015	Cost charged to profit or loss		Benefit paid	Remeasurement gains in other comprehensive income				Exchange differences	31 December 2015
		Net interest expense	Sub-total included in profit or loss		Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income		
	(HK$'000)									
Benefit obligations	(10,551)	(357)	(357)	240	209	721	961	1,891	10	(8,767)
Benefit liability	**(10,551)**	**(357)**	**(357)**	**240**	**209**	**721**	**961**	**1,891**	**10**	**(8,767)**

30. DEFERRED TAX

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

DEFERRED TAX ASSETS:

	Provision for impairment of receivables	Write-down of inventories	Provision	Accruals	Losses available for offsetting against future taxable profits	Depreciation	Derivative financial instruments	Unrealised profit	Provision for impairment of property, plant and equipment	Insurance deposit	Pension and post-retirement benefits	Foreign tax credit	Others	Total
	(HK$'000)													
As at 1 January 2015	2,224	5,309	1,253	35,940	5,415	1,901	–	–	–	1,481	217	–	808	54,548
Credited/(charged) to profit or loss (note 11)	1,382	4,336	862	8,521	1,325	1,233	283	14,550	–	(1,481)	612	–	(78)	31,545
Translation adjustments	(619)	(457)	(106)	(449)	(367)	(160)	(4)	(48)	–	–	–	–	(49)	(2,259)
As at 31 December 2015 and 1 January 2016	2,987	9,188	2,009	44,012	6,373	2,974	279	14,502	–	–	829	–	681	83,834
Credited/(charged) to profit or loss (note 11)	316	4,949	7,103	6,600	59,496	722	(283)	34,782	1,020	–	4,745	15,930	5,173	140,553
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	1,102	–	–	1,102
Translation adjustments	(116)	(698)	(128)	(578)	(272)	(201)	4	(1,689)	(46)	–	(2)	(11)	(17)	(3,754)
As at 31 December 2016	**3,187**	**13,439**	**8,984**	**50,034**	**65,597**	**3,495**	**–**	**47,595**	**974**	**–**	**6,674**	**15,919**	**5,837**	**221,735**

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

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30. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Derivative financial instruments	Inventory valuation differences	Depreciation	Fair value adjustments arising from put/call options	Prepaid expenses	Receivable valuation differences	Other intangible assets	Total
	(HK$'000)								
At 1 January 2015	(19,094)	(8,039)	(1,016)	(760)	–	–	–	(225,203)	(254,112)
Addition from acquisition	–	–	–	–	–	–	–	(6,267)	(6,267)
(Charged)/credited to profit or loss (note 11)	–	7,158	(1,386)	(6,380)	(2,690)	(62)	(120)	4,709	1,229
Translation adjustments	1,114	746	123	40	34	–	9	15,199	17,265
At 31 December 2015 and 1 January 2016	(17,980)	(135)	(2,279)	(7,100)	(2,656)	(62)	(111)	(211,562)	(241,885)
(Charged)/credited to profit or loss (note 11)	–	137	(171)	(4,159)	–	62	120	3,039	(972)
Translation adjustments	1,157	(2)	95	(39)	98	–	(9)	4,803	6,103
At 31 December 2016	**(16,823)**	**–**	**(2,355)**	**(11,298)**	**(2,558)**	**–**	**–**	**(203,720)**	**(236,754)**

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

Pursuant to the Board resolutions of GCPC, PCPC and GCPN, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2016 will not be appropriated to GBHK in 2016 and onwards. Hence, the deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2016.

At 31 December 2016, other than the amount recognised in the consolidated financial statements, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$921,959,000 at 31 December 2016 (2015: HK$763,838,000).

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

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:

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

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

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

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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31. OTHER LIABILITIES

Included in other liabilities are a put option over non-controlling interests of HK$8,893,000 (2015: HK$6,578,000) arising from the acquisition of CBDK and employee worker injury compensation of HK$3,582,000 (2015: HK$3,999,000) of overseas subsidiaries.

32. SHARE CAPITAL

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

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue ('000)	Share capital (HK$'000)	Share premium (HK$'000)	Total (HK$'000)
At 1 January 2015	1,100,972	11,010	1,183,406	1,194,416
Issuance of shares (note (a))	4,539	45	15,479	15,524
Share options exercised	3,087	31	9,193	9,224
Difference between proposed and declared 2014 dividend	–	–	–	–
At 31 December 2015 and 1 January 2016	1,108,598	11,086	1,208,078	1,219,164
Share options exercised (note (b))	6,531	65	19,447	19,512
Dividend	–	–	(55,679)	(55,679)
At 31 December 2016	**1,115,129**	**11,151**	**1,171,846**	**1,182,997**

32. SHARE CAPITAL (Continued)

Notes:

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

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

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Eligible participants of the Scheme include full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including non-executive and independent non-executive directors) of the Company or any of its subsidiaries and advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the board will contribute or have contributed to the Company or any of its subsidiaries as described in the Scheme. The Scheme has become effective on 5 November 2010 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 5 November 2010. The maximum number of shares issuable under share options to each eligible participant under the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue as at the date on which the share options are granted to the relevant eligible participants. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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33. SHARE OPTION SCHEME (Continued)

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

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

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

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

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

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

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

33. SHARE OPTION SCHEME (Continued)

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

2016

Number of options '000	Exercise price HK$ per share	Exercise period
218	2.12	3 January 2014 to 2 January 2018
1,928	2.12	3 January 2015 to 2 January 2018
2,671	2.12	3 January 2016 to 2 January 2018
6,933	2.12	3 January 2017 to 2 January 2018
11,627	3.58	29 September 2017 to 28 September 2024
12,747	3.58	29 September 2018 to 28 September 2024
11,626	3.58	29 September 2019 to 28 September 2024
7,383	3.75	7 October 2018 to 6 October 2025
7,383	3.75	7 October 2019 to 6 October 2025
7,384	3.75	7 October 2020 to 6 October 2025
1,667	3.87	30 August 2017 to 29 August 2023
3,333	3.87	30 August 2018 to 29 August 2023
74,960		

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33. SHARE OPTION SCHEME (Continued)

2015

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

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

33. SHARE OPTION SCHEME (Continued)

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

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

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

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

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

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

At the date of approval of these financial statements, the Company had 74,911,500 share options outstanding under the Scheme, which represented approximately 6.72% of the Company's shares in issue as at that date.

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34. RESERVES

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

DEFERRED SHARES RESERVE

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

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

STATUTORY RESERVE FUNDS

Statutory reserve funds comprise:

(i) Reserve fund

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

(ii) Enterprise expansion fund

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

34. RESERVES (Continued)

STATUTORY RESERVE FUNDS (Continued)

(iii) Statutory surplus reserve

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

MERGER RESERVE

As at 31 December 2016, the merger reserve represents:

(i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issue of the Company's shares to GCPC's then shareholders. The difference between the nominal value of the Company's share of the paid-up capital of GCPC and the par value of the Company's shares issued amounting to HK$108,281,000 was recognised in the merger reserve account;

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

(iii) The Group acquired the wooden products and E-car businesses through acquiring a 100% equity interest in PCPC in June 2010 and this acquisition was accounted for using the pooling of interests method. Prior to the establishment of PCPC on 5 November 2008, the wooden products and E-car businesses were carried out by a fellow subsidiary, GPCL. Upon establishment, PCPC acquired all the assets and liabilities related to the wooden products and E-car businesses from GPCL at their respective book values and continued the wooden products and E-car businesses afterwards. Accordingly, the retained earnings of HK$11,357,000 in respect of the wooden products and E-car businesses generated prior to the establishment of PCPC were capitalised in the merger reserve account in 2008; and

(iv) In 2010, the Group disposed of its equity interests in Goodbaby (China) Commercial Co., Ltd. ("GCCL"), Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Online Service Co., Ltd. ("SGOL"), Ricky Bright Limited ("RCBL"), Mothercare Goodbaby China Retail Limited ("MGCR") and Mothercare-Goodbaby Retailing Co.,Ltd. ("MGRL") to G-Baby Holdings Limited ("GBHL") for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operations amounting to HK$35,699,000 was recognised as a deemed contribution in the merger reserve account.

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35. OPERATING LEASE ARRANGEMENTS

AS LESSEE

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

36. COMMITMENTS

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

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

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

36. COMMITMENTS (Continued)

(B) OTHER COMMITMENT

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

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facility of HK$760 million that was entered into between an overseas wholly-owned subsidiary and the financial institution, the Group shall pay to the financial institution an upfront fee equal to one percent of the loan amount, which shall be due and payable in five equal instalments of approximately HK$1.5 million per annum.

37. RELATED PARTY TRANSACTIONS AND BALANCES

(A) NAME AND RELATIONSHIP

Name of related party	**Relationship with the Group**
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
Goodbaby Bairuikang Hygienic Products Co., Ltd. ("BRKH")	50/50 jointly controlled by First Shanghai Hygienic Products Limited and Sure Growth Investments Limited, which is significantly influenced by Mr. Song and his spouse
Goodbaby Group Co., Ltd. ("GGCL")	Controlled by Mr. Song and his spouse
Goodbaby China Holdings Limited ("CAGB")	Controlled by Mr. Song and his spouse
Goodbaby China Commercial Co., Ltd. ("GCCL")	Wholly owned by CAGB
Shanghai Goodbaby Child Products Co., Ltd. ("SGCP")	Ultimately owned by CAGB
Goodbaby Group Pingxiang Co., Ltd. ("GGPX")	Wholly owned by GGCL
Goodbaby (China) Retail & Service Company ("GRCN")	Ultimately owned by CAGB

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37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) RELATED PARTY TRANSACTIONS

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

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

Note (a): The sales of goods to the related parties were made according to the prices and terms agreed with the related parties.

Note (b): The purchase of goods from the related party was made according to the prices and terms agreed with the related party.

Note (c): The rental expenses to related parties were paid according to the prices and terms agreed with the related parties.

Note (d): The expenses paid on behalf of/by the related parties are interest-free and repayable on demand.

These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(C) OUTSTANDING BALANCE WITH RELATED PARTIES

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

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

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

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

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

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

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

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

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

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, i.e. forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

As at 31 December 2016, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

Below is a summary of significant unobservable inputs to the valuation of wealth investment products together with a quantitative sensitivity analysis as at 31 December 2016 and 2015:

Financial instruments	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input (HK$'000)
Available-for-sale investments	Discount cash flow method	Expected rate of return	2016: nil (2015: 1.49% to 4.00%)	5% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by nil/(nil) (2015: HK $19/(HK$19))

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY

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

Assets measured at fair value:

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

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

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

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

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company did not have any financial assets and liabilities measured at fair value as at 31 December 2015 and 2016.

Liabilities for which fair values are disclosed:

		Fair value measurement using		
	31 Decembe 2016	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put option over non-controlling interests	8,893	–	–	8,893
Interest-bearing bank loans and other borrowings	1,228,757	–	1,228,757	–
	1,237,650		**1,228,757**	**8,893**

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed (continued):

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

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

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

FINANCIAL ASSETS

As at 31 December 2016

	Financial assets at fair value through profit of loss	Loans and receivables	Total
		(HK$'000)	
Trade and notes receivables	–	644,440	644,440
Financial assets included in prepayments and other receivables (note 21)	–	97,355	97,355
Due from related parties	–	284,395	284,395
Other long-term assets (note 18)	5,348	–	5,348
Pledged time deposits	–	25,367	25,367
Cash and cash equivalents	–	758,153	758,153
	5,348	**1,809,710**	**1,815,058**

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39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL ASSETS (Continued)

As at 31 December 2015

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

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2016

	Financial liabilities at amortised cost (HK$'000)
Financial liabilities included in other payables, advances from customers and accruals (note 26)	92,021
Trade and bills payables	926,464
Interest-bearing bank loans and other borrowings	1,228,757
Other liabilities (note 31)	8,893
	2,256,135

As at 31 December 2015

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

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

INTEREST RATE RISK

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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 28.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in interest rate	(Decrease)/ increase in profit before tax
	(HK$'000)	
Year ended 31 December 2016	+5%/-5%	(2,758)/2,758
Year ended 31 December 2015	+5%/-5%	(3,023)/3,023

A reasonably possible change of 5% in the interest rates with all other variables held constant has no impact on the Group's equity other than retained earnings.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK

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

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

The Group manages its foreign currency risk by entering into foreign currency forward contracts to hedge its exposure to fluctuations on the translation into EUR of its foreign operations of sales in US$, as described in note 24. It is the Group's policy to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at a fixed rate where necessary to address short term imbalances. Management will continue to monitor foreign exchange exposure and will continue to consider hedging significant foreign currency exposure by using financial instruments such as foreign currency forward contracts.

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

	Increase/decrease in US$ rate	Increase/ (decrease) in profit before tax
	(HK$'000)	
Year ended 31 December 2016		
If US$ strengthens against RMB	5%	9,933
If US$ weakens against RMB	-5%	(9,933)
If US$ strengthens against EUR	5%	717
If US$ weakens against EUR	-5%	(717)
Year ended 31 December 2015		
If US$ strengthens against RMB	5%	4,514
If US$ weakens against RMB	-5%	(4,514)
If US$ strengthens against EUR	5%	1
If US$ weakens against EUR	-5%	(1)

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

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

At the end of the reporting period, the Group had certain concentrations of credit risk as 8% (2015: 23%) of the Group's trade receivables were due from the Group's largest customer.

40. 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.

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

31 December 2016

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interest-bearing bank loan and other borrowings	189,782	94,423	20,848	1,006,655	1,311,708
Trade and bills payables	798,734	127,730	–	–	926,464
Other liabilities	–	–	–	8,893	8,893
Other payables	92,021	–	–	–	92,021
	1,080,537	**222,153**	**20,848**	**1,015,548**	**2,339,086**

31 December 2015

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

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CAPITAL MANAGEMENT

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loans and other borrowings, trade and bills payables, and other payables, advances from customers and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

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

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

41. EVENT AFTER THE REPORTING PERIOD

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

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium	Deferred shares reserve	Share option reserve	Accumulated losses	Total
	(HK$'000)				
Balance at 31 December 2014 and 1 January 2015	1,183,406	15,524	20,873	(52,057)	1,167,746
Loss for the year	–	–	–	(21,710)	(21,710)
Deferred shares	15,479	(15,524)		–	(45)
Share options exercised	9,193	–	(2,680)	–	6,513
Equity-settled share option arrangements	–	–	12,714	–	12,714
Balance at 31 December 2015 and 1 January 2016	1,208,078	–	30,907	(73,767)	1,165,218
Loss for the year	–	–	–	(65,977)	(65,977)
Dividends	(55,679)	–	–	–	(55,679)
Share options exercised	19,447	–	(5,666)	–	13,781
Equity-settled share option arrangements	–	–	16,507	–	16,507
As at 31 December 2016	**1,171,846**	**–**	**41,748**	**(139,744)**	**1,073,850**

43. APPROVAL OF THE FINANCIAL STATEMENTS

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

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2016	2015	2014	2013	2012
	(HK$'000)				
RESULTS					
Revenue	6,238,179	6,951,131	6,115,592	4,188,794	4,554,462
Cost of sales	(4,126,715)	(4,900,919)	(4,588,057)	(3,228,205)	(3,682,571)
Gross profit	2,111,464	2,050,212	1,527,535	960,589	871,891
Other income and gains	59,101	94,881	97,147	48,593	54,030
Selling and distribution expenses	(982,468)	(1,030,382)	(777,464)	(446,969)	(359,350)
Administrative expenses	(924,260)	(794,064)	(699,180)	(359,971)	(343,270)
Other expenses	(50,199)	(3,062)	(3,234)	(11,056)	(3,381)
Operating profit	213,638	317,585	144,804	191,186	219,920
Finance income	3,347	7,246	8,606	10,590	7,910
Finance costs	(55,166)	(60,466)	(48,110)	(6,826)	(11,897)
Share of gains/(losses) of a joint venture	26	(30)	(31)	(22)	(30)
Share of losses of an associate	–	(8)	–	–	–
Profit before tax	161,845	264,327	105,269	194,928	215,903
Income tax credit/(expense)	50,395	(61,655)	(47,545)	(23,799)	(32,780)
Profit for the year	**212,240**	**202,672**	**57,724**	**171,129**	**183,123**
Attributable to:					
Owners of the parent	207,390	197,434	57,475	171,213	181,207
Non-controlling interests	4,850	5,238	249	(84)	1,916
	212,240	**202,672**	**57,724**	**171,129**	**183,123**

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at ended 31 December				
	2016	2015	2014	2013	2012
	(HK$'000)				
Total assets	5,518,738	5,921,551	6,522,064	3,463,668	3,191,679
Total liabilities	(3,040,576)	(3,513,449)	(4,194,404)	(1,436,176)	(1,339,550)
Non-controlling interests	(37,882)	(42,844)	(30,756)	(30,611)	(29,766)
	2,440,280	**2,365,258**	**2,296,904**	**1,996,881**	**1,822,363**