# Goodbaby International Holdings Limited
# 好 孩 子 國 際 控 股 有 限 公 司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1086)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

### Financial Highlights*(note 1)*

- Revenue for the six months ended 30 June 2011 was approximately HK$1,970.6 million, up 8.5% as compared with approximately HK$1,816.3 million for the corresponding period in 2010;

- Gross profit for the six months ended 30 June 2011 was approximately HK$364.2 million, down 4.9% as compared with approximately HK$383.0 million for the corresponding period in 2010, which translated to a gross profit margin of approximately 18.5% for the six months ended 30 June 2011 as compared with approximately 21.1% for the corresponding period in 2010; and

- Profit for the six months ended 30 June 2011 was approximately HK$115.4 million, down 5.1% as compared with approximately HK$121.6 million for the corresponding period in 2010, which translated to a profit margin of approximately 5.9% for the six months ended 30 June 2011 as compared with approximately 6.7% for the corresponding period in 2010.

**Revenue by geographical regions (HK$ million)** *(note 1)*

| | **Six months ended 30 June 2011** | **Six months ended 30 June 2010** | **Growth analysis 2011 vs 2010** |
|---|---|---|---|
| European Markets *(note 2)* | 553.7 | 524.5 | 5.6% |
| North America *(note 2)* | 593.3 | 636.4 | - 6.8% |
| China | 545.9 | 453.1 | 20.5% |
| Other Overseas Markets *(note 2)* | 277.7 | 202.3 | 37.3% |
| Total | 1,970.6 | 1,816.3 | 8.5% |

**Revenue by products (HK$ million)** *(note 1)*

| | **Six months ended 30 June 2011** | **Six months ended 30 June 2010** | **Growth analysis 2011 vs 2010** |
|---|---|---|---|
| Stroller and accessories | 1,015.1 | 901.3 | 12.6% |
| Car safety seat and accessories | 208.6 | 237.3 | - 12.1% |
| Other durable juvenile products | 746.9 | 677.7 | 10.2% |
| Total | 1,970.6 | 1,816.3 | 8.5% |

*Note 1: Figures for corresponding period in 2010 are figures for continuing operations.*

*Note 2: For purposes of this announcement, references to "European Markets" mean countries in Europe to which the Group sells its product, which were Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the U.K.; "North America" means the United States and Canada; and "Other Oversea Markets" mean overseas markets other than North America and European Market, including markets such as Russia, Japan, South America, Middle East, Southeast Asia and India.*

The board (the "**Board**") of directors ("**Directors**") of Goodbaby International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to present the unaudited consolidated interim results of the Group for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010.

## FINANCIAL INFORMATION

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | *Notes* | **Six months ended 30 June 2011** *(HK$'000) (Unaudited)* | **2010** *(HK$'000) (Unaudited and unreviewed)* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4,5 | 1,970,618 | 1,816,289 |
| Cost of sales | | (1,606,427) | (1,433,330) |
| **Gross profit** | | 364,191 | 382,959 |
| Other income | 5 | 49,377 | 18,962 |
| Selling and distribution costs | | (140,448) | (126,056) |
| Administrative expenses | | (129,806) | (115,405) |
| Other expenses | | (712) | (6,345) |
| **Operating profit** | | 142,602 | 154,115 |
| Finance income | 6 | 1,645 | 320 |
| Finance costs | 7 | (4,865) | (7,596) |
| **Profit before tax from continuing operations** | 8 | 139,382 | 146,839 |
| Income tax expense | 9 | (23,982) | (25,202) |
| **Profit for the period from continuing operations** | | 115,400 | 121,637 |
| **Discontinued operation** | | | |
| Loss after tax for the period from a discontinued operation | | — | (41,287) |
| **Profit for the period** | | 115,400 | 80,350 |

| | Notes | Six months ended 30 June 2011 (HK$'000) (Unaudited) | 2010 (HK$'000) (Unaudited and unreviewed) |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Exchange differences on translation | | 16,106 | 7,690 |
| Total comprehensive income for the period, net of tax | | 131,506 | 88,040 |
| Profit for the period attributable to: | | | |
| Owners of the parent | | 114,473 | 81,564 |
| Non-controlling interests | | 927 | (1,214) |
| | | 115,400 | 80,350 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 129,956 | 88,961 |
| Non-controlling interests | | 1,550 | (921) |
| | | 131,506 | 88,040 |
| Earnings per share attributable to ordinary equity holders of the parent: | 11 | | |
| Basic and diluted | | | |
| - For profit for the period (HK$) | | 0.11 | 0.10 |
| - For profit from continuing operations (HK$) | | 0.11 | 0.15 |

Details of the dividends payable and proposed for the period are disclosed in note 10 to the interim condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **As at 30 June 2011** *(HK$'000)* *(Unaudited)* | **As at 31 December 2010** *(HK$'000)* *(Audited)* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 569,745 | 538,491 |
| Land lease payments | | 67,376 | 67,118 |
| Intangible assets | | 33,195 | 30,836 |
| Deferred tax assets | | 9,795 | 15,912 |
| Total non-current assets | | 680,111 | 652,357 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | 564,063 | 571,309 |
| Trade and notes receivables | 13 | 495,913 | 506,311 |
| Prepayments and other receivables | | 187,086 | 178,243 |
| Derivative financial instruments | | 15,987 | — |
| Due from related parties | | 132,174 | 76,945 |
| Cash and cash equivalents | | 1,018,484 | 1,024,722 |
| Total current assets | | 2,413,707 | 2,357,530 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 14 | 712,528 | 685,180 |
| Other payables, advances from customers and accruals | | 238,235 | 265,924 |
| Interest-bearing bank borrowings | 15 | 439,184 | 319,590 |
| Derivative financial instruments | | — | 2,885 |
| Dividends payable | | 17,557 | — |
| Due to related parties | | — | 649 |
| Income tax payable | | 35,341 | 9,732 |
| Provision | | 13,677 | 23,922 |
| Total current liabilities | | 1,456,522 | 1,307,882 |
| **NET CURRENT ASSETS** | | 957,185 | 1,049,648 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 1,637,296 | 1,702,005 |

| | Notes | As at 30 June 2011 (HK$'000) (Unaudited) | As at 31 December 2010 (HK$'000) (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 15 | — | 152,779 |
| Deferred tax liabilities | | 14,913 | 8,349 |
| Total non-current liabilities | | 14,913 | 161,128 |
| **Net assets** | | 1,622,383 | 1,540,877 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | 10,000 | 10,000 |
| Reserves | | 1,585,055 | 1,505,099 |
| | | 1,595,055 | 1,515,099 |
| **Non-controlling interests** | | 27,328 | 25,778 |
| **Total equity** | | 1,622,383 | 1,540,877 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 14 July 2000 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, PO 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 manufacturing and distribution of child related products.

### 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") that remains in effect.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

### 3.1 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised International Financial Reporting Standards ("IFRSs"), which have been issued but are not yet effective, in the interim condensed consolidated financial statements.

| | |
|---|---|
| Amendments to IAS 12 | Deferred Tax: Recovery of Underlying Assets[2] |
| IAS 27 (Revised) | Separate Financial Statements[3] |
| IAS 28 (Revised) | Investments in Associates and Joint Ventures[3] |
| Amendments to IFRS 7 | Disclosures — Transfers of Financial Assets[1] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[3] |
| IFRS 11 | Joint Arrangements[3] |
| IFRS 12 | Disclosure in Interests in Other Entities[3] |
| IFRS 13 | Fair Value Measurement[3] |
| IAS 1 Amendments | Presentation of Financial Statements[4] |
| IAS 19 Amendments | Employee Benefits[3] |

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2012

3 Effective for annual periods beginning on or after 1 January 2013

4 Effective for annual periods beginning on or after 1 July 2012

The directors are in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the directors anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the Group's results of operations and financial position.

## 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

## 4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

**Six months ended 30 June 2011**

| | Overseas HK$'000 (Unaudited) | | | Domestic HK$'000 (Unaudited) | | | Consolidated HK$'000 (Unaudited) |
|---|---|---|---|---|---|---|---|
| | **Strollers and accessories** | **Other durable juvenile products** | **Subtotal** | **Strollers and accessories** | **Other durable juvenile products** | **Subtotal** | |
| **Segment revenue:** | | | | | | | |
| **Sales to external customers** | 789,294 | 635,402 | 1,424,696 | 225,840 | 320,082 | 545,922 | 1,970,618 |
| Intersegment sales | 101,591 | 100,476 | 202,067 | — | — | — | 202,067 |
| | | | | | | | 2,172,685 |
| **Reconciliation:** | | | | | | | |
| Elimination of intersegment sales | | | | | | | (202,067) |
| Revenue from continuing operations | | | | | | | 1,970,618 |
| Cost of sales | | | | | | | (1,606,427) |
| Other income | | | | | | | 49,377 |
| Operating costs | | | | | | | (270,254) |
| Other expenses | | | | | | | (712) |
| Finance costs - net | | | | | | | (3,220) |
| **Profit before tax from continuing operations** | | | | | | | 139,382 |

**Six months ended 30 June 2010**

| | Overseas HK$'000 (Unaudited and unreviewed) | | | Domestic HK$'000 (Unaudited and unreviewed) | | | Consolidated HK$'000 (Unaudited and unreviewed) |
|---|---|---|---|---|---|---|---|
| | **Strollers and accessories** | **Other durable juvenile products** | **Subtotal** | **Strollers and accessories** | **Other durable juvenile products** | **Subtotal** | |
| **Segment revenue:** | | | | | | | |
| **Sales to external customers** | 732,913 | 630,260 | 1,363,173 | 168,426 | 284,690 | 453,116 | 1,816,289 |
| Intersegment sales | 81,972 | 80,744 | 162,716 | — | — | — | 162,716 |
| | | | | | | | 1,979,005 |
| **Reconciliation:** | | | | | | | |
| Elimination of intersegment sales | | | | | | | (162,716) |
| Revenue from continuing operations | | | | | | | 1,816,289 |
| Cost of sales | | | | | | | (1,433,330) |
| Other income | | | | | | | 18,962 |
| Operating costs | | | | | | | (241,461) |
| Other expenses | | | | | | | (6,345) |
| Finance costs - net | | | | | | | (7,276) |
| **Profit before tax from continuing operations** | | | | | | | 146,839 |

## 5. REVENUE AND OTHER INCOME

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

| | **Six months ended 30 June 2011** *(HK$'000) (Unaudited)* | **2010** *(HK$'000) (Unaudited and unreviewed)* |
|---|---|---|
| **Revenue:** | | |
| Sales of goods | 1,970,618 | 1,816,289 |
| **Other income:** | | |
| Government grants | 7,841 | 2,184 |
| Gain on sales of raw materials | 2,052 | 6,994 |
| Gain on sales of scrap materials | 4,784 | 3,476 |
| Compensation income | 2,137 | 2,934 |
| Service fee income | 1,241 | 711 |
| Gain on revaluation of derivative financial instruments | 15,987 | 1,683 |
| Foreign exchange gains | 15,125 | — |
| Others | 210 | 980 |
| Total | 49,377 | 18,962 |

## 6. FINANCE INCOME

| | Six months ended 30 June 2011 *(HK$'000)* *(Unaudited)* | 2010 *(HK$'000)* *(Unaudited and unreviewed)* |
|---|---|---|
| **Continuing operations:** | | |
| - Interest income on bank deposits | 1,645 | 320 |

## 7. FINANCE COSTS

| | Six months ended 30 June 2011 *(HK$'000)* *(Unaudited)* | 2010 *(HK$'000)* *(Unaudited and unreviewed)* |
|---|---|---|
| **Continuing operations:** | | |
| - Interest expense on bank loans and borrowings | 4,865 | 7,596 |

## 8. PROFIT BEFORE TAX

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

| | Six months ended 30 June 2011 *(HK$'000)* *(Unaudited)* | 2010 *(HK$'000)* *(Unaudited and unreviewed)* |
|---|---|---|
| Cost of inventories recognized as expenses | 1,229,956 | 1,083,098 |
| Depreciation of property, plant and equipment | 34,493 | 32,997 |
| Amortization of intangible assets | 1,524 | 1,214 |
| Amortization of land lease payments | 1,287 | 870 |
| Research and development costs ("R&D") | 44,752 | 39,490 |
| Lease payments under operating leases in respect of properties | 21,119 | 13,237 |
| Auditors' remuneration | 2,436 | 3,036 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages, salaries and other benefits | 290,043 | 238,145 |
| Pension scheme contributions | 13,495 | 8,433 |
| | 303,538 | 246,578 |
| Net foreign exchange (gains)/losses | (15,125) | 5,041 |
| Provision for impairment of receivables | — | 63 |
| Write-down of inventories | — | 914 |
| Product warranty | 833 | 9,560 |
| Fair value gain on derivative financial instruments | (15,987) | (1,683) |
| Loss on disposal of items of property, plant and equipment | 346 | 315 |
| Bank interest income | (1,645) | (320) |

## 9. INCOME TAX

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands (the "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 period.

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

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 20.7% to 35.3% on a progressive basis.

The Group's subsidiaries registered in the Netherlands are subject to income tax based on the taxable income at rates ranging from 20% to 25.5% on a progressive basis.

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

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in charge in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC"), is qualified as a "High and New Technology Enterprise" ("HNTE") and was subject to a preferential tax rate of 15% from 2008 to 2010. The HNTE status is renewable three years after certificate issuance and needs to be reapplied three years after certificate renewal via an application and approval process which will be initiated prior to the expiry of the HNTE certification. As at 30 June 2011, the renewable procedure was still in process and at the current stage, the Company's directors believe that it is likely that GCPC will qualify for the HNTE status upon renewal; as a result, the Company applied a 15% corporate income tax rate for GCPC for the six months ended 30 June 2011 and on deferred taxes for GCPC as at 30 June 2011, respectively.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | *(HK$'000)* | *(HK$'000)* |
| | *(Unaudited)* | *(Unaudited and unreviewed)* |
| PRC income tax | | |
| Current income tax - PRC | 7,531 | 17,283 |
| United States state and federal income tax | (1,419) | 2,955 |
| Japan income tax | — | — |
| Netherlands income tax | 44 | 34 |
| Hong Kong profits tax | 5,145 | 610 |
| Deferred income tax | 12,681 | 4,320 |
| Income tax expense reported in the statement of comprehensive income | 23,982 | 25,202 |

## 10. DIVIDENDS PAID AND PROPOSED

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | *(HK$'000)* | *(HK$'000)* |
| | *(Unaudited)* | *(Unaudited and unreviewed)* |
| Dividends on ordinary shares declared and paid during the six-month period: | | |
| Final dividend for 2010: HK$0.05 (2009: Nil) | 50,000 | — |

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,000,000,000 in issue during the six months ended 30 June 2011 (six months ended 30 June 2010: 799,000,000), as adjusted to reflect the capitalization issue during 2010.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2010 and 2011 includes the pro forma issued share capital of the Company of 799,000,000 shares, comprising:

i) 27,300,000 issued and fully paid shares; and

ii) the capitalization issue of 771,700,000 shares.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2011 includes the 201,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 24 November 2010 in addition to the aforementioned 799,000,000 ordinary shares.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | *(HK$'000)* | *(HK$'000)* |
| | *(Unaudited)* | *(Unaudited and unreviewed)* |
| **Earnings** | | |
| Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: | | |
| From continuing operations | 114,473 | 120,435 |
| From a discontinued operation | — | (38,871) |
| | 114,473 | 81,564 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 1,000,000,000 | 799,000,000 |

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2011 as the Group had no potentially dilutive ordinary shares in issue during the period.

## 12. INVENTORIES

| | As at 30 June 2011 | As at 31 December 2010 |
|---|---|---|
| | *(HK$'000)* | *(HK$'000)* |
| | *(Unaudited)* | *(Audited)* |
| Raw materials | 191,165 | 169,067 |
| Work in progress | 82,695 | 84,491 |
| Finished goods | 290,203 | 317,751 |
| | 564,063 | 571,309 |

## 13. TRADE AND NOTES RECEIVABLES

| | As at 30 June 2011 *(HK$'000)* *(Unaudited)* | As at 31 December 2010 *(HK$'000)* *(Audited)* |
|---|---|---|
| Trade receivables | 478,687 | 493,714 |
| Notes receivables | 17,665 | 13,026 |
| | 496,352 | 506,740 |
| Impairment for trade receivables | (439) | (429) |
| | 495,913 | 506,311 |

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

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

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

| | As at 30 June 2011 *(HK$'000)* *(Unaudited)* | As at 31 December 2010 *(HK$'000)* *(Audited)* |
|---|---|---|
| Within 3 months | 473,450 | 479,280 |
| 3 to 6 months | 3,663 | 9,261 |
| 6 months to 1 year | 1,132 | 4,584 |
| Over 1 year | 3 | 160 |
| | 478,248 | 493,285 |

## 14. TRADE AND NOTES PAYABLES

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

| | As at 30 June 2011 *(HK$'000)* *(Unaudited)* | As at 31 December 2010 *(HK$'000)* *(Audited)* |
|---|---|---|
| Within 3 months | 686,296 | 594,236 |
| 3 to 12 months | 21,622 | 87,069 |
| 1 to 2 years | 2,961 | 2,174 |
| 2 to 3 years | 902 | 872 |
| Over 3 years | 747 | 829 |
| | 712,528 | 685,180 |

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

## 15. INTEREST-BEARING BANK BORROWINGS

| | As at 30 June 2011 | | | As at 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | *Effective interest rate (%)* | *Maturity* | *HK$'000* *(Unaudited)* | *Effective interest rate (%)* | *Maturity* | *HK$'000* *(Audited)* |
| **Current** | | | | | | |
| Unsecured bank loans | 3.66 - 6.26 | 2011 | 177,133 | 2.99 - 4.86 | 2011 | 167,149 |
| Bank borrowings pledged by intra-group trade receivables | 2.85 - 4.01 | 2011 | 262,051 | 1.05 - 1.06 | 2011 | 152,441 |
| **Subtotal** | | | 439,184 | | | 319,590 |
| **Non-current** | | | | | | |
| Unsecured bank loans | | | — | 4.86 | 2012 | 152,779 |
| **Total** | | | 439,184 | | | 472,369 |

All short-term bank borrowings were obtained from third party financial institutions. As at 30 June 2011, a subsidiary pledged trade receivables of approximately HK$299,788,000 (31 December 2010: HK$167,162,000) to secure certain of the Group's bank loans and these trade receivables were eliminated on group level.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Note 1)*

### Business review and outlook

In the first half of 2011, the Group achieved revenue of approximately HK$1,970.6 million, up 8.5% compared with the corresponding period in 2010. During the six months ended 30 June 2011, the Group recorded net profit of approximately HK$115.4 million, down 5.1% as compared with the profit from continuing operations of approximately HK$121.6 million achieves during the corresponding period in 2010. The relative slowdown in the growth of the Group's revenue is mainly attributable to the decline in revenue (down 6.8%) from the markets in North America and the relative slowdown in the growth of its revenue (up 5.6%) from the European Market despite robust growth in revenue (up 20.5% and 37.3%, respectively) from China and Other Overseas Markets. The decrease in the profits from continuing operations is mainly due to the reduced in gross profits. (For detailed analysis of revenue and earnings please refer to the section "Financial Review" of this announcement).

Since 2011, the Group have further strengthened its self-operational capabilities which it has been focusing to develop for years and has further enhanced its position within the industry, laying a more solid foundation and providing further strong momentum for the rapid growth of the Company in future.

1. Leveraging on the strengthening leadership position in the China market, the Group is positioned for further acceleration in growth.

   (1) **Accelerating business growth.** Revenue growth of the Company in China increased from 13.7% in 2010 (as compared to the full year revenue in 2009) to 20.5% in the first half of 2011 (as compared to the revenue in the corresponding period in 2010).

   (2) **Leading brand position.** According to a recent survey report[Note 2] on stroller market, the "Goodbaby" brand has been considered by 94.6%, 72.9% and 76.8% of the people under survey as the most recognised brand, the most frequently mentioned brand and the most favourable brand, respectively, in China, far ahead of 39.6%, 4.2% and 5.1%, respectively enjoyed by the second-ranking brand.

* *Note 1:* All financial figures for the six months ended 30 June 2010 in this section are figures for continuing operations.

*Note 2:* Refers to the report of 葉茂中營銷策劃機構. 葉茂中營銷策劃機構 is a renowned marketing and sales strategic company in China, and is an independent third party.

(3) **Significant increase in channel coverage and penetration rate.** On the basis of sustained wide coverage on large department stores and hypermarkets, the Group has also quickly expanded and strengthened the coverage on and penetration into maternity and childcare specialty stores. Distribution network of the Group covered 31 provinces and municipalities, with the number of directly covered maternity and childcare specialty stores rose from 5,785 as at 31 December 2010 to 9,245 as at 30 June 2011, among which the number of maternity and childcare specialty stores the Group has covered through in-depth distribution management system expanded from 4,725 in 33 cities of five provinces*note 1* as at 31 December 2010 to 6,777 in 53 cities of 10 provinces*note 1* as at 30 June 2011. In particular, the penetration rate of the target stores in the five provinces*note 1* covered as at 31 December 2010 has rose from 42% as at 31 December 2010 to 57% as at 30 June 2011.

*(note 1: Including Shanghai)*

2. The position of the Group in the global durable juvenile product market has markedly strengthened furthering our bargaining power in this industry.

(1) **Continuous double-digit growth of revenue of our strollers and accessories.** In the first half of 2011, the revenue of strollers and accessories of the Group from China, European Market and Other Overseas Markets grew by 34.1%, 7.2% and 40.4%, respectively, significantly outperforming the overall market growth. Although revenue of strollers and accessories from North America market decreased 5.4% due to the downturn of the US market, the overall revenue of strollers and accessories still recorded a growth of 12.6%.

(2) **Joining the US and European product standards associations as a member to participate in reviewing and revising of a number of national standards of developed countries.** In the first half of 2011, the Group was invited by the American Society for Testing Materials and the European Committee for Standardization, respectively to join them as member and participate in the developing or revising standards of durable juvenile products for their countries and regions. So far, the Group has participated in revising 28 US national standards. The Group has also played a part in revising a national standard in Japan at the invitation of the Consumer Products Safety Association of Japan.

(3) **The Goodbaby laboratory has become a laboratory for cooperation for various international authoritative testing institutions.** In the first half of 2011, the Group's laboratory, on the basis of having been certified as a China National Accredited Laboratory, was accredited by two international authoritative testing institutions and consecutively became a laboratory for cooperation for Societe Generale de Surveillance S.A (abbreviated as "SGS") and TUV Nord Group for conducting testing and chemical tests on car safety seats for children.

(4) **Achieving meaningful progress in the "Cradle to Cradle" ("C2C") project.** The stroller, car safety seat and crib products developed by the Group based on the concept of C2C in the first half of 2011 were granted the silver certification by the C2C certification centre, Michael Braungart Design Chemistry. The Group is the first company in the global durable juvenile product industry and also so far the only company implementing the concept of C2C. The Group believes the continued progress achieved in the project can provide strong support to the Group in consolidating its leading position in the global durable juvenile product industry.

3. The self-operational business model of the Group has substantially strengthened, with increasing bargaining power in the industry.

   In the first half of 2011, the OPM ("Original Products Manufacturer") business model of the Group targeting the European and North America markets has substantially strengthened. On one hand, the Group's market-oriented and independent complete product research and development capability was enhanced rapidly. New products of the "turnkey design" were continually launched. On the other hand, the Group has officially initiated the arrangement of making its own investment in moulds to enable the Group to have full control over specific products.

4. The Group has reached a new height in product innovation ability with progress in R&D capability of all durable juvenile products.

(1) **Accelerated launch of new products:** In the first half of 2011, the Group has launched 289 new products in total, increased by 78 as compared with 211 in the corresponding period in 2010. Meanwhile, the Group has applied for a total of 285 patents, with an additional 32 patents as compared with a total of 253 patents in the corresponding period in 2010. In the second half of 2011, the Group will continue to launch more new products to various markets.

(2) **Rapid diversification of product mix.** While further enhancing the innovation ability of the Group in strollers and car safety seats, the Group has also substantially improved its ability to innovate other durable juvenile products. The Group has put in production the first two new product models designed by its R&D centre in Hong Kong (established in July 2010) and commenced another 15 new product R&D projects. Special R&D departments for other durable juvenile products have been set up in Kunshan R&D centre. In the first half of 2011, they have launched 38 new products and commenced 127 new product R&D projects, while a batch of new products for crib, walkers and bouncers targeted at the North American mass market was available for sale in June 2011.

(3) **Effective strategy of target new products for target markets.** While reinforcing the dominant position of the Group in North American mass market, the Group targeted at North American market for mid-to high-end product lines and successively brought a batch of strollers, cribs and dining chairs to Babies "R" Us, a high-end retail channel, in May 2011. With increasing product lines targeted at Japanese market, the Group launched 3 new models into the market and commenced 12 new product projects covering such durable juvenile products as strollers, car safety seats and bouncers. While continuing to consolidate the leadership in European mid-to high-end markets, the Group succeeded in launching products targeted at European mass market, which will begin sale in September 2011. Given the sluggish European Market, especially the declining market in South Europe, the Group carried out a number of product value engineering projects to optimize the costs and selling price in order to increase the sale of a batch of products on the basis of same or improved performance-price ratio.

5. The Group accelerated the progress of market and product diversification strategies resulting in increasing sources for sustained business growth.

(1) **A 37.3% increase in revenues from Other Overseas Markets.** The Group implemented a full scale strategy for the self-owned brands of the Group in overseas markets and established a dedicated brand promotion team. The Group participated in a series of industry exhibitions in Other Overseas Markets to promote its self-owned brands. Up to now, the Group has taken part in the Hong Kong Toys & Games Fair, the Baby Expo-International Trade Fair of Goods and Services for Children, the Tokyo Baby & Kids Expo and the Korea COEX Baby Fair. In September 2011, the Group will also participate the Mir Detstva—Exhibition for Goods and Services for Children and Teenagers. In the first half of 2011, the Group recorded a business

growth of over 40% in emerging markets including Russia, South America and Middle East. The Group has also made rapid headway in expanding the Japanese market, bringing products of its self-owned brands into Nishimatsuya and Akachanhonpo, two major mother & baby products retail chains targeting at mass market and medium to high-end market, respectively. In the first half of 2011, the Group posted a revenue growth of over 45% for products of its self-owned brands in the Japanese market.

(2) **Meaningful progress achieved in the implementation of the product diversification strategy.** As mentioned above, a batch of strollers, cribs and dining chair products aiming at mid- to high-end North American markets have been launched for sale in May 2011, while a batch of crib, walkers and bouncer products aiming at North American mass market entered sales phase in June 2011. The products of the Group oriented to the European mass market also achieved success and will be launched for sale in September 2011. Revenue from the independently developed car safety seats increased by 67.4%. Revenues from the sales of other durable juvenile products in European Market and Other Overseas Markets increased by 19.7% and 36.1%, respectively, while revenues from sales of other durable juvenile products other than children's bicycles in China increased by 24.7%. In the first half of 2011, the Group launched 38 new items of other durable juvenile products and initiates more than 140 new product research and development projects.

In July 2011, the Group was granted the "World Class Global Performance Excellence Award (Highest Honour)" by the Asia Pacific Quality Organization and was ranked No. 1 among the five prize-winning enterprises in 2011. This honour marks the recognition by the world's authorities for the Group's long-term commitment in providing high-quality products and services and its effort in establishing an excellent performance management system, and reflects the competitiveness of the Group in global markets.

Looking forward, the Group has commenced strategy-oriented projects for building the core competitiveness, aiming to incorporate the Group's five-year plan and strategic objectives to systematically straighten out and build the core capabilities that are necessary for realizing the strategic objectives of the Group, laying a solid foundation for better achievement and long-term sustainable development.

The second half of 2011 will be full of challenges. Looking to the future, the aforesaid arrangements and efforts will support the Group in confidently tackling challenges, making further progress and becoming more powerful. The varied new products of the Group will bring more market opportunities. The strong foundation and industry position that the Group has established and continuously enhanced can effectively promote the continuous growth in the future. The Group will continue to capitalize on and support our leading and dominant position in China market to strengthen brand promotion, intensify channel construction and enhance market penetration in order to rapidly enhance the growth in the China market; to keep expanding and strengthening the proprietary product lines (especially in the segment of car safety seats) and enhance the position in the industry chain so as to increase the profitability of the Group; to leverage on the excellent research and development capacity to continuously seize market share by launching multiple-level and diversified new products targeting the sluggish North American and European Market; to enhance the expansion to Other Overseas Markets, vigorously promote the brands, and build up and enhance the market position to increase sale; to develop the leading edge in the stroller sector and increase development in car safety seats and other durable juvenile products so as to establish the leading position of the Group globally in the area of all-round durable juvenile products.

**Financial Review**

**Revenue**

The total revenue increased by 8.5% from approximately HK$1,816.3 million for the six months ended 30 June 2010 to approximately HK$1,970.6 million for the six months ended 30 June 2011. From the geographical region perspective, the increase was mainly due to an increase in revenue from China and Other Overseas Markets by a growth rate of 20.5% and 37.3%, respectively (Please refer to the section "Revenue by Geographical Region" below for details). From the product category perspective, the increase was mainly due to an increase in revenue from strollers and other durable juvenile products by a growth rate of 12.6% and 10.2%, respectively (Please refer to the section "Revenue by Products" below for details).

**Revenue by Geographical Region**

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

| | For the six months ended 30 June | | | | Growth analysis 2011 vs 2010 |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | |
| | Sales *(HK$ million)* | % of Sales | Sales *(HK$ million)* | % of Sales | Growth |
| European Market | 553.7 | 28.1% | 524.5 | 28.9% | 5.6% |
| North America | 593.3 | 30.1% | 636.4 | 35.0% | -6.8% |
| China | 545.9 | 27.7% | 453.1 | 25.0% | 20.5% |
| Other Overseas Markets | 277.7 | 14.1% | 202.3 | 11.1% | 37.3% |
| Total | 1,970.6 | 100.0% | 1,816.3 | 100.0% | 8.5% |

Revenue from the European Market increased by 5.6% to approximately HK$553.7 million for the six months ended 30 June 2011 from approximately HK$524.5 million for the six months ended 30 June 2010. The increase was attributable to the increase in revenue from strollers and accessories as well as other durable juvenile products, which was partially offset by the decrease in revenue from car seats and accessories.

Revenue from North America decreased by 6.8% to approximately HK$593.3 million for the six months ended 30 June 2011 from approximately HK$636.4 million for the six months ended 30 June 2010. The decrease was primarily attributable to the sluggish market in North America lacking consumer expenditure.

Revenue from China increased by 20.5% to approximately HK$545.9 million for the six months ended 30 June 2011 from approximately HK$453.1 million for the six months ended 30 June 2010. The increase was attributable to the increase in revenue from all product categories.

Revenue from Other Overseas Markets increased by 37.3% to approximately HK$277.7 million for the six months ended 30 June 2011 from approximately HK$202.3 million for the six months ended 30 June 2010, of which the revenue from strollers and accessories increased by 40.4%, while revenue from other product categories increased by 33.0%.

**Revenue by Products**

The table below sets out the revenue by product categories for the periods indicated.

| | **For the six months ended 30 June** | | | | **Growth analysis 2011 vs 2010** |
|---|---|---|---|---|---|
| | **2011** | | **2010** | | |
| | **Sales** *(HK$ million)* | **% of Sales** | **Sales** *(HK$ million)* | **% of Sales** | **Growth** |
| Strollers and accessories | 1,015.1 | 51.5% | 901.3 | 49.6% | 12.6% |
| Car seats and accessories | 208.6 | 10.6% | 237.3 | 13.1% | -12.1% |
| Other durable juvenile products | 746.9 | 37.9% | 677.7 | 37.3% | 10.2% |
| Total | 1,970.6 | 100.0% | 1,816.3 | 100.0% | 8.5% |

Revenue from strollers and accessories increased by 12.6% to approximately HK$1,015.1 million for the six months ended 30 June 2011 from approximately HK$901.3 million for the six months ended 30 June 2010. The increase was attributable to the growth in revenue from China, Other Overseas Markets and the European Market and was partially offset by the decrease in revenue from the North America.

Revenue from car seats and accessories decreased by 12.1% to approximately HK$208.6 million for the six months ended 30 June 2011 from approximately HK$237.3 million for the six months ended 30 June 2010. The decrease was mainly attributable to a reduction in orders from the customers of the Group, which was partially compensated by the increase in revenue from the proprietary car seat products. Revenue from the proprietary car seat products increased by 67.4% from approximately HK$12.9 million for the six months ended 30 June 2010 to approximately HK$21.6 million for the six months ended 30 June 2011.

Revenue from other durable juvenile products increased by 10.2% to approximately HK$746.9 million for the six months ended 30 June 2011 from approximately HK$677.7 million for the six months ended 30 June 2010. The increase was attributable to the growth in revenue from China, Other Overseas Markets and the European Market and was partially offset by the decrease in revenue from the North America.

**Cost of sales, Gross profit and Gross profit margin**

The cost of sales increased by 12.1% to approximately HK$1,606.4 million for six months ended 30 June 2011 from approximately HK$1,433.3 million for the six months ended 30 June 2010. The increase was primarily due to the increased sales and production driven by higher demand for the products of the Group, as well as the increase in raw material prices and labor costs. The cost of sales as a percentage of sales increased from 78.9% for the six months ended 30 June 2010 to 81.5% for the six months ended 30 June 2011. The increase was primarily due to the rising prices of raw materials, appreciation of Renminbi and the rising labor costs, which was partially compensated by the increase in the unit selling price of products and the improvement in productivity.

As a result of the foregoing, the gross profit decreased by 4.9% from approximately HK$383.0 million for the six months ended 30 June 2010 to approximately HK$364.2 million for the corresponding period in 2011. The gross profit margin decreased from 21.1% for the six months ended 30 June 2010 to 18.5% for the corresponding period in 2011, primarily as a result of the following:

***Overseas markets***

In overseas markets, the gross profit margin decreased from 20.0% for the six months ended 30 June 2010 to 16.0% for the corresponding period in 2011. This was mainly attributable to a decline in the gross profit margin of car seat and accessory products as a result of the rising prices of raw materials, appreciation of Renminbi and rising labor costs.

***China***

In China, the gross profit margin increased from 24.5% for the six months ended 30 June 2010 to 25.0% for the corresponding period in 2011. The gross profit margin for all product lines remained stable basically, which was primarily attributable to an increase in the unit selling price of products, which was partially offset by the rising prices of raw materials and rising labor costs.

**Other Income**

The other income increased by HK$30.4 million to approximately HK$49.4 million for the six months ended 30 June 2011 from approximately HK$19.0 million for the six months ended 30 June 2010, which was mainly attributable to exchange gains and gains from forward foreign exchange contracts.

**Selling and Distribution Costs**

The selling and distribution costs primarily consist of promotional expenses, salaries and transportation costs.

The selling and distribution costs increased by 11.3% to approximately HK$140.4 million for the six months ended 30 June 2011 from approximately HK$126.1 million for the six months ended 30 June 2010. The increase in selling and distribution costs was primarily due to an increase in promotional expenses.

**Administrative Expenses**

The administrative expenses primarily consist of salaries, research and development costs, and professional expenses.

The administrative expenses increased from approximately HK$115.4 million for the six months ended 30 June 2010 to approximately HK$129.8 million for the six months ended 30 June 2011. The increase in administrative expenses is primarily attributable to an increase in salary expenses, research and development costs and office expenses, which was partially compensated by a reduction in professional expenses.

**Other Expenses**

The other expenses decreased by HK$5.6 million to approximately HK$0.7 million for the six months ended 30 June 2011 from approximately HK$6.3 million for the six months ended 30 June 2010, the decrease was mainly due to less exchange losses incurred.

**Operating Profit**

As a result of the foregoing, the operating profit decreased by 7.5% to approximately HK$142.6 million for the six months ended 30 June 2011 from approximately HK$154.1 million for the six months ended 30 June 2010.

**Finance Income**

The finance income increased from approximately HK$0.3 million for the six months ended 30 June 2010 to approximately HK$1.6 million for the six months ended 30 June 2011, all finance income was interest income from bank deposits.

**Finance Costs**

The finance costs decreased from approximately HK$7.6 million for the six months ended 30 June 2010 to approximately HK$4.9 million for the six months ended 30 June 2011, the decrease was mainly attributable to lower usage of bank loans and more utilization of the loans denominated in U.S. dollar with lower borrowing cost for the six months ended 30 June 2011.

**Profit Before Tax**

As a result of the foregoing, the profit before tax from the continuing operations (representing the total sum of gross profit, other income, administrative expenses, selling and distribution costs, other expenses, finance costs and finance income) decreased by 5.0% from approximately HK$146.8 million for the six months ended 30 June 2010 to approximately HK$139.4 million for the six months ended 30 June 2011.

**Income Tax Expense**

The income tax expense was approximately HK$24.0 million for the six months ended 30 June 2011, whereas the income tax expense was approximately HK$25.2 million for the six months ended 30 June 2010. The effective tax rate was 17.2% for the six months ended 30 June 2011, and the effective tax rate for the six months ended 30 June 2010 was also 17.2%.

**Profit for the Period**

For the six months ended 30 June 2011, the profit for the period was approximately HK$115.4 million, the profit for the six-month period ended 30 June 2010 was approximately HK$121.6 million.

**Working Capital**

| | As at 30 June 2011 *(HK$ million)* | As at 31 December 2010 *(HK$ million)* |
|---|---|---|
| Trade receivables | 478.7 | 493.7 |
| Trade and notes payables | 712.5 | 685.2 |
| Inventories | 564.1 | 571.3 |
| Trade receivables turnover days(1) | 45 | 53 |
| Trade and notes payables turnover days(2) | 79 | 89 |
| Inventories turnover days(3) | 64 | 85 |

*Notes:*

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

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

(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 trade receivables balance decreased by HK$15.0 million from approximately HK$493.7 million as at 31 December 2010 to approximately HK$478.7 million as at 30 June 2011, the decrease was mainly attributable to further improvement in the management of receivables by the Group.

The balance of trade and notes payables increased by HK$27.3 million from approximately HK$685.2 million as at 31 December 2010 to approximately HK$712.5 million as at 30 June 2011, the increase was mainly due to an increase in business volume resulting in an increase in trade payables.

The balance of inventories decreased by HK$7.2 million from approximately HK$571.3 million as at 31 December 2010 to approximately HK$564.1 million as at 30 June 2011, remaining stable.

**Liquidity and Financial Resources**

The Group has established a sound cash management system, including a dedicated cash management division for managing the liquidity of the Group, and an accountability system under which each operating unit will be responsible for its own cash flows.

The Group generally finances operations and future plans with liquid funds from cash flows generated internally by operating activities and from banking facilities.

As at 30 June 2011, the Group's cash and cash equivalents were approximately HK$1,018.5 million, of which: HK$903.2 million were denominated in Renminbi, HK$19.8 million were denominated in HK dollars and HK$95.5 million were denominated in other currencies. (As at 31 December 2010: approximately HK$1,024.7 million, of which: HK$110.9 million were denominated in Renminbi, HK$832.4 million were denominated in HK dollars and HK$81.4 million were denominated in other currencies).

As at 30 June 2011, the Group's interest-bearing bank borrowings were approximately HK$439.2 million (As at 31 December 2010: approximately HK$472.4 million), of which: approximately HK$108.2 million were denominated in Renminbi (As at 31 December 2010: approximately HK$242.1 million were denominated in Renminbi), and approximately HK$331.0 million were denominated in U.S. dollars (As at 31 December 2010: approximately HK$230.3 million were denominated in U.S. dollars). Out of these amounts, approximately HK$60.1 million were charged at fixed interest rate (As as 31 December 2010: approximately HK$150.7 million were charged at fixed interest rate) and approximately HK$379.1 million were charged at variable interest rate (As at 31 December 2010: approximately HK$321.7 million were charged at variable interest rate).

**Contingent Liabilities**

As at 30 June 2011, the Group had no material contingent liabilities.

**Exchange Rate Fluctuations**

The sales are mainly denominated in U.S. dollars and Renminbi. The cost of sales and operating expenses are mainly denominated in Renminbi. For the six months ended 30 June 2011, approximately 72.3% of the revenue was denominated in U.S. dollars. Renminbi was appreciated by approximately 2.3% against the U.S. dollar during the six months ended 30 June 2011. If the Group is unable to increase the U.S. dollar selling prices of the products sold to the overseas customers for offsetting any appreciation of the Renminbi against the U.S. dollar, the gross profit margin will be adversely affected.

During the six months ended 30 June 2011, the Group entered into forward foreign exchange contracts denominated in U.S. dollars with an aggregated amount of US$297.3 million in order to manage its risk exposure, of which the amount of contracts expired on or before 30 June 2011 was approximately US$89.8 million, and the amount of outstanding contracts was approximately US$207.5 million.

**Pledge of Assets**

As at 30 June 2011, some of the Group's interest-bearing bank borrowings were pledged by intra-group trade receivables of approximately HK$299.8 million (As at 31 December 2010: approximately HK$167.2 million), and such trade receivables were eliminated in the consolidated financial statements of the Group.

**Gearing Ratio**

As at 30 June 2011, the Group's gearing ratio (calculated by net liabilities divided by the sum of equity attributable to owners of the parent and net liabilities; the amount of net liabilities is calculated by the sum of trade and notes payables, other payables, advances from customers and accruals, interest-bearing loans and borrowings (current and non-current), dividends payable and amounts due to related parties, minus cash and cash equivalents) was approximately 19.6% (As at 31 December 2010: approximately 20.9%).

**Employees and Remuneration Policy**

As at 30 June 2011, the Group had a total number of 15,332 full-time employees (As at 30 June 2010, the Group had a total number of 17,425 full-time employees). For the six months ended 30 June 2011, employee costs, excluding directors' emoluments, amounted to a total of HK$297.5 million (For the six months ended 30 June 2010, employee costs, excluding directors' emoluments, amounted to a total of HK$242.2 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides a defined contribution mandatory provident fund for retirement benefits of its employees in Hong Kong, and provides its employees in the PRC and other countries with welfare schemes as required by the applicable local laws and regulations.

The Company has also adopted a share option scheme on 5 November 2010. During the six months ended 30 June 2011, no share option was granted.

## OTHER INFORMATION

**Purchase, Sales or Redemption of Shares**

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### Significant Acquisition, Disposal or Investment

As at 30 June 2011, the Group has no specific material investment target. The Group did not have any material acquisition and disposals of subsidiaries and associated companies, and investment during the period under review.

### Dividends

The Board does not recommend payment of any dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

### Code on Corporate Governance

The Company is committed to the maintenance of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain high corporate governance standard. For the six months ended 30 June 2011, the Board is of the view that the Company has complied with the code provisions on the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for the following deviation:

Code provision A.2.1: The roles of chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual. Mr. Song Zhenghuan is an executive Director, the chairman of the Company, CEO and the founder of the Group.

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

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Listing Rules (the "**Model Code**") as the standards for the Directors' dealings in the securities of the Company. The Directors have confirmed, having made specific enquiry with the directors of the Company, that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2011.

**Audit Commitee**

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors. The Audit Committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011.

**Publication of Interim Report**

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.gbinternational.com.hk). The interim report of the Company for the six months ended 30 June 2011 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 17 August 2011

*As at the date of this announcement, the executive Directors are Mr. Song Zhenghuan and Mr. Wang Haiye; the non-executive Directors are Mr. Christopher Marcus Gradel and Ms. Chiang Yun; and the independent non-executive Directors are Mr. Iain Ferguson Bruce, Mr. Long Yongtu and Mr. Shi Xiaoguang.*