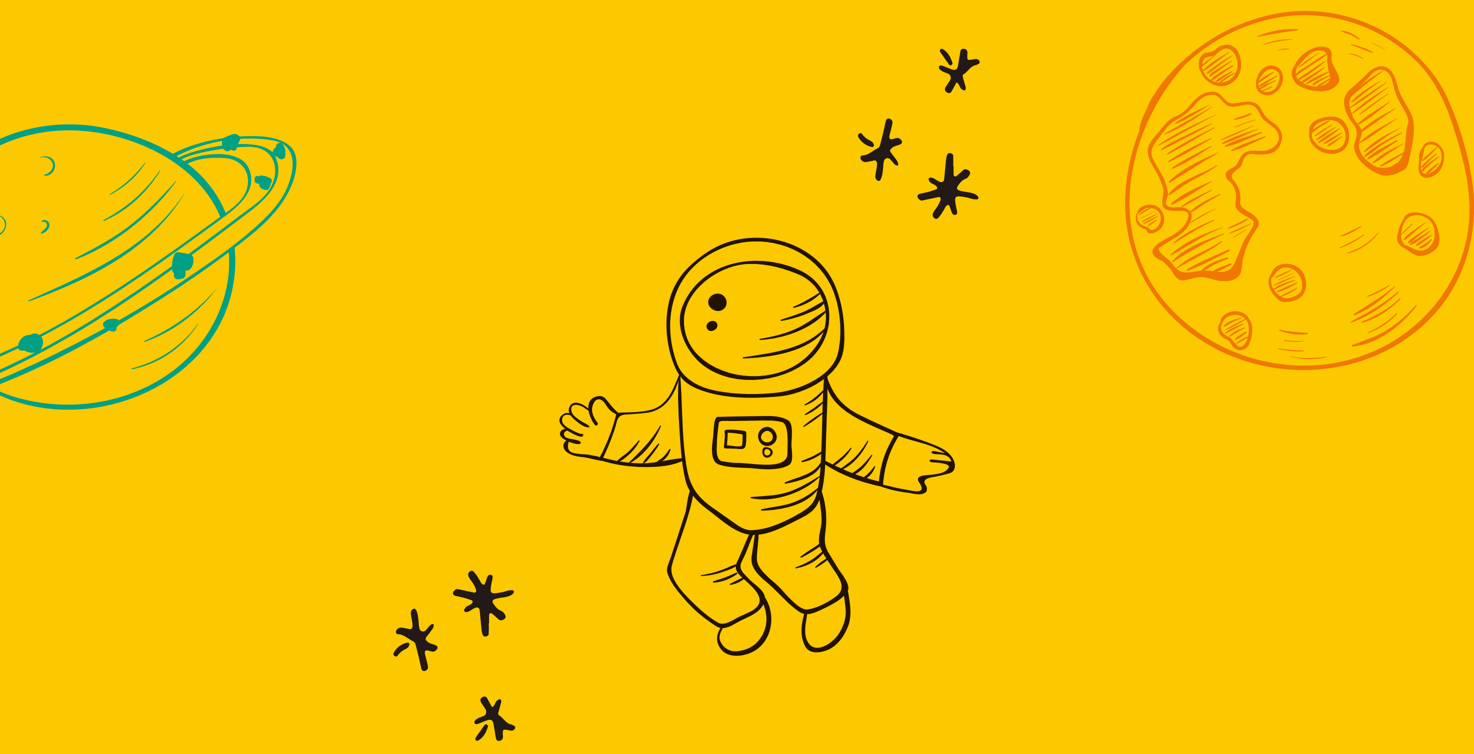
kidsland 凱知樂

Kidsland International Holdings Limited
凱知樂國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2122

ANNUAL REPORT 2017



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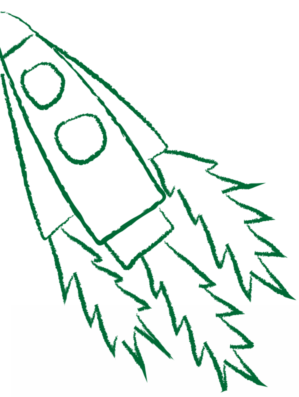


CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lee Ching Yiu *(Chairman)*
Dr. Lo Wing Yan William
Ms. Zhong Mei

Non-executive Directors
Mr. Du Ping
Ms. Duan Lanchun

Independent Non-executive Directors
Mr. Cheng Yuk Wo
Mr. Huang Lester Garson
Dr. Lam Lee G.

AUDIT COMMITTEE

Mr. Cheng Yuk Wo *(Chairman)*
Mr. Huang Lester Garson
Dr. Lam Lee G.

REMUNERATION COMMITTEE

Mr. Huang Lester Garson *(Chairman)*
Mr. Cheng Yuk Wo
Dr. Lo Wing Yan William

NOMINATION COMMITTEE

Dr. Lam Lee G. *(Chairman)*
Mr. Cheng Yuk Wo
Mr. Huang Lester Garson

JOINT COMPANY SECRETARIES

Ms. Wong Yuk Ki
Ms. Li Shan Mui

AUTHORISED REPRESENTATIVES

Dr. Lo Wing Yan William
Ms. Wong Yuk Ki

AUDITOR

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Level 9 One Indigo
20 Jiuxianqiao Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F Times Tower
391-407 Jaffe Road
Wan Chai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

COMPANY'S WEBSITE

www.kidslandholdings.com

STOCK CODE

2122

PRINCIPAL BANKERS

Hong Kong
The Bank of East Asia, Limited
Bank of China (Hong Kong) Limited
OCBC Wing Hang Bank Limited

The PRC
China Construction Bank
China Minsheng Bank
Industrial and Commercial Bank of China

CHAIRMAN'S STATEMENT

MR. LEE CHING YIU
CHAIRMAN, CHIEF EXECUTIVE OFFICER, AND EXECUTIVE DIRECTOR

Dear **Shareholders**,

On behalf of the board (the "Board") of directors (the "Directors") of Kidsland International Holdings Limited ("Kidsland" or the "Company"), I am pleased to present you with the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

2017 was a year full of challenges in the retail market and business environment. It had been a year lacking growth drivers. Despite the gradual stabilization of the overall economy and stock market, retail growth remained slow, market confidence and consumption sentiments remained weak. The retail industry in the PRC continued to face downward pressure. Retail companies continued to suffer from profit margin squeeze brought by the continuous increase in operating costs.

The Group had endeavored to strategize its development to adapt to the changing market trends and strong headwinds. With intense competition from e-commerce, changing behaviors of consumers and rising demand for personalized consumption experience, the Group had undergone reorganization to elevate efficiency in operation and distribution, integrate its sophisticated sales networks with its online business and successfully evolve into an operation with full distribution channels.

We had also enriched our product portfolio to cater for consumers' changing preferences and to bring in better margins. During the year, the Group had close discussions with internationally renowned companies such as ThreeSixty Sourcing Limited and MGA Entertainment Inc., and subsequently entered into cooperations in early 2018 for the distribution of brands such as "FAO Schwarz", "LOL", "Num Noms" and "Little Tikes" as well as opening "FAO Schwarz" flagship stores.

In Hong Kong, our third Lego Certified Store was opened in December 2017 in New Town Plaza, and had kept up with the good performances of our two flagships stores in Langham Place and Times Square. The fourth store is expected to come in 2018, and the Group will keep abreast of the changes in the rental market to ensure sites selected for our stores are of optimal cost-benefit effectiveness.

Looking forward to 2018, amid increasing competitions, our core development strategy is to continue consolidating our leading position in the market, and we are optimistic about our prospects. The Group will continue development in skills and strategies on launching its own brands or proprietary brands to ensure uniqueness, push up margins and fasten customer loyalty.

On behalf of the Board, I would like to express our sincerest gratitude to all staff members for their dedication and contributions to the Group during this critical transition, and to all our customers and shareholders for their long-lasting support to Kidsland. I would also like to express my gratitude to all fellow members of the Board. The Group will keep up its efforts with the aim of generating the optimal returns to all its stakeholders.

Lee Ching Yiu
Chairman
Hong Kong, 21 March 2018

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lee Ching Yiu ("Mr. Lee"), aged 62, was appointed as a Director on 26 April 2017 and re-designated as an executive Director on 24 May 2017. He is also the Chairman and Chief Executive Officer. Mr. Lee is the founder of the group and he is primarily responsible for the overall management, strategic planning and operations of our Group. Prior to establishing the Group, Mr. Lee has been engaged in the manufacturing of toys for some brand owners and has gained 26 years of experience in the toy industry. Mr. Lee is a director of Silverkids Inc., Prince Asia Limited, Kidsland Holdings Limited, Kidsland China Limited* ("Kidsland China") (廣州智樂商業有限公司), Kidsland Trading Company (Beijing) Ltd.* (北京孩思樂商業有限公司), Kidsland HK Limited and Kidsland LCS Limited and the general manager of Kidsland China. Mr. Lee received his Bachelor of Arts from the University of Hong Kong in November 1979.

Dr. Lo Wing Yan William ("Dr. Lo"), aged 57, was appointed as a Director on 26 April 2017 and re-designated as an executive Director on 24 May 2017. He is also the Vice Chairman, Chief Financial Officer, Managing Director in Hong Kong and a member of the Remuneration Committee. He is primarily responsible for the strategic development and corporate financial management of the Group as well as overseeing the operations in Hong Kong. Dr. Lo serves as independent non-executive director of Television Broadcasts Limited (stock code: 511), CSI Properties Limited (stock code: 497), SITC International Holdings Company Limited (stock code: 1308), Jingrui Holdings Limited (stock code: 1862) and Ronshine China Holdings Limited (stock code: 3301). Dr. Lo is also independent non-executive director of Nam Tai Property Inc. listed on the New York Stock Exchange. Dr. Lo was an independent non-executive director of International Housewares Retail Company Limited (stock code: 1373) from September 2013 to September 2015 and an independent non-executive director of BOE Varitronix Limited (stock code: 710) from July 2004 to June 2016, both of which are listed on the Stock Exchange, and Astaka Holdings Limited (Stock code: 42S, formerly known as E2-Capital Holding Limited) listed on the Singapore Stock Exchange. Dr. Lo is an experienced executive in the TMT (technology, media and telecommunications) and the consumer sectors. He started his career in McKinsey & Company Inc., as a management consultant and once held senior positions in China Unicom (Hong Kong) Limited, Hongkong Telecommunication Limited, Citibank HK, I.T Limited and South China Media Group in the past. Dr. Lo received his Master of Philosophy in March 1986 and his Doctor of Philosophy from the University of Cambridge in March 1988. Dr. Lo is the Founding Governor of the Charles K. Kao Foundation for Alzheimer's Disease and the ISF Academy as well as the Chairman of Junior Achievement HK.

Ms. Zhong Mei ("Ms. Zhong"), aged 47, was appointed as a Director on 26 April 2017 and re-designated as an executive Director on 24 May 2017. She is the Managing Director China and is primarily responsible for overseeing the operations of the Group in the PRC. Ms. Zhong also serves as a director of various Group subsidiaries. Prior to joining the Group in July 2001, Ms. Zhong served as the sales and marketing director of Beijing Hong Kong Garland Trading Company Ltd (北京京港嘉寧商業有限責任公司), a branded toys distributor from March 1999 to June 2001 where she was primarily responsible for overseas business management, including sales, marketing, operations and organisational development. From November 1993 to February 1999, Ms Zhong served as the national business manager of the toys division of East Asiatic Company (China) Ltd., a wholly-owned subsidiary of Santa Fe Group A/S, where she was primarily responsible for overseas business management of its toys division, including sales, marketing operations and organisational development. Ms. Zhong received her Bachelor of Arts in English from the Civil Aviation University of China in July 1992 and Executive Master of Business Administration from the China Europe International Business School in China in September 2005.

Non-executive Directors

Mr. Du Ping ("Mr. Du"), aged 47, was appointed as a non-executive Director on 24 May 2017. He has been the Financial Controller of Lovable Holdings Limited since July 2005 responsible for financial reporting and management. Mr. Du received his Bachelor of Accounting from the Capital University of Economics and Business (previously known as the Beijing Economics College (北京經濟學院)) in China in July 1993, and his Master of Business Administration from the National University of Singapore in August 2000. Mr. Du was admitted as a certified public accountant in China in November 1993 and as a Chinese Accountant issued by the Ministry of Personnel and the Ministry of Finance in the PRC in October 1994.

Ms. Duan Lanchun ("Ms. Duan"), aged 43, was appointed as a non-executive Director on 31 August 2017. She has been a Managing Partner at Cathay Capital Private Equity since October 2010, when she was responsible for the management and operation of funds. From December 2003 to August 2008, Ms. Duan served as associate director of the financial advisory department at the Shanghai branch of Deloitte Touche Tohmatsu. She has been a director of Zbom Cabinets Co., Ltd. (志邦廚櫃股份有限公司), a company listed on the Shanghai Stock Exchange, since July 2017. She has also been a director of each of Shanghai Bandweaver Technology Company Limited (上海波匯科技股份有限公司) and SINO-KOR Plastic & Aesthetic Hospital Holding Co., Ltd. (華韓整形美容醫院控股股份有限公司), both listed on the National Equities Exchange and Quotations, since August 2015 and June 2015, respectively. Ms. Duan received her Bachelor's degree in Economics, majoring in Accounting, from Central University of Finance and Economics (中央財經大學) in July 1997. She obtained her Master's degree in Business Administration from the China Europe International Business School (中歐國際工商學院) in September 2010.

Independent Non-executive Directors

Mr. Cheng Yuk Wo ("Mr. Cheng"), aged 57, was appointed as an independent non-executive Director on 20 October 2017. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Mr. Cheng is currently the proprietor of Erik Cheng & Co., a certified public accountant practice in Hong Kong. Mr. Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics in August 1984, and a Bachelor of Arts degree in Accounting from the University of Kent in July 1983. He has been a fellow of the Institute of Chartered Accountants in England and Wales and the HKICPA since August 1998 and January 1999 respectively, and a member of the Institute of Chartered Professional Accountants of Canada since November 1990. Mr. Cheng has more than 30 years of experience in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers Ltd.) in London between 1984 and 1987 and Swiss Bank Corporation (now known as UBS AG) in Toronto between 1989 and 1992, and held senior management positions in a number of Hong Kong listed companies. Mr. Cheng is independent non-executive director of Somerley Capital Holdings Limited (stock code: 8439), CSI Properties Limited (stock code: 497), HKC (Holdings) Limited (stock code: 190), C.P. Lotus Corporation (stock code: 121), Goldbond Group Holdings Limited (stock code: 172), CPMC Holdings Limited (stock code: 906), Top Spring International Holdings Limited (stock code: 3688), Chong Hing Bank Limited (stock code: 1111), Liu Chong Hing Investment Limited (stock code: 194), Chia Tai Enterprises International Limited (stock code: 3839), DTXS Silk Road Investment Holdings Company Limited (stock code: 620) and Miricor Enterprises Holdings Limited (stock code: 8358). Besides, Mr. Cheng was an independent non-executive director of Imagi International Holdings Limited (stock code: 585) from July 2010 to January 2016.

Mr. Lester Garson Huang ("Mr. Huang"), aged 58, was appointed as an independent non-executive Director on 20 October 2017. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Mr. Huang is currently a practicing solicitor and managing partner, and was appointed as a co-chairman of P.C. Woo & Co. in January 2016. He oversees the firm's probate and trust administration practice. Mr. Huang has been an independent non-executive director at Lam Soon (Hong Kong) Limited (stock code: 411) since November 2013, and was an independent non-executive director at International Housewares Retail Company Limited (stock code: 1373) from September 2013 to September 2015. In July 2002, Mr. Huang was appointed by the Hong Kong Special Administrative Region Government as a Justice of the Peace. Mr. Huang serves as a member of the Hospital Authority from December 2012 and a non-executive director of the SFC from November 2015. He was the president of the Law Society of Hong Kong from 2007 to 2009 and has been a fellow of The Hong Kong Institute of Directors since January 2000.

Mr. Huang received his Bachelor of Laws and his Postgraduate Certificate in Laws from the University of Hong Kong in 1982 and 1983 respectively and his Master of Education from the Chinese University of Hong Kong in December 2006. Mr. Huang was admitted as a solicitor in Hong Kong in March 1985, a solicitor in England and Wales in November 1990, a solicitor and barrister in Australia in February 1991, an advocate and solicitor in Singapore in February 1995, a Notary Public in Hong Kong in May 1997, a China-Appointed Attesting Officer in January 2003 and a Civil Celebrant of Marriages in May 2006.

Dr. Lam Lee G. ("Dr. Lam"), aged 58, was appointed as an independent non-executive Director on 20 October 2017. He is also the Chairman of the Nomination Committee and a member of the Audit Committee. Dr. Lam is chairman of Hong Kong Cyberport Management Company Limited, non-executive chairman – Hong Kong and ASEAN Region and chief adviser to Macquarie Infrastructure and Real Assets Asia, a member of the Hong Kong Special Administrative Region Government's Committee on Innovation, Technology and Re-Industrialization, the Hong Kong Council on Smoking and Health, the Council on Professional Conduct in Education and the Court of the City University of Hong Kong, convenor of the Panel of Advisors on Building Management Disputes of the Hong Kong Special Administrative Region Government's Home Affairs Department, and president of Hong Kong-ASEAN Economic Cooperation Foundation.

Dr. Lam is an independent non-executive director of each of CSI Properties Limited (Stock Code: 497), Glorious Sun Enterprises Limited (Stock Code: 393), Vongroup Limited (Stock Code: 318), Mei Ah Entertainment Group Limited (Stock Code: 391), Elife Holdings Limited (Stock Code: 223), Haitong Securities Co., Ltd. (Stock Code: 6837 which is also listed on the Shanghai Stock Exchange with Stock Code: 600837), Huarong Investment Stock Corporation Limited (Stock Code: 2277), Xi'an Haitiantian Holdings Co., Ltd. (Stock Code: 8227, formerly known as Xi'an Haitian Antenna Holdings Co., Ltd), and Hua Long Jin Kong Company Limited (Stock code: 1682, formerly known as Highlight China IOT International Limited); and a non-executive director of China Shandong Hi-Speed Financial Group Limited (Stock Code: 412), China LNG Group Limited (Stock Code: 931), National Arts Entertainment and Culture Group Limited (Stock Code: 8228), Sunwah Kingsway Capital Holdings Limited (Stock Code: 188) and Tianda Pharmaceuticals Limited (Stock Code: 455), the shares of all of which are listed on the Stock Exchange.

He is an independent non-executive director of each of Asia-Pacific Strategic Investments Limited (Stock Code: 5RA), Rowsley Limited (Stock Code: A50), and Top Global Limited (Stock Code: BHO), and an non-executive director of Singapore e-Development Limited (Stock Code: 40V) the shares of all of which are listed on the Singapore Exchange. Dr. Lam is also an independent non-executive director of Sunwah International Limited (Stock Code: SWH), the shares of which are listed on the Toronto Stock Exchange; an independent non-executive director of AustChina Holdings Limited (Stock Code: AUH), the shares of which are listed on the Australian Securities Exchange; and a non-executive director of Adamas Finance Asia Limited (Stock Code: ADAM), the shares of which are listed on the London Stock Exchange.

Besides, Dr. Lam was a non-executive director of DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) (stock code: 620) and Roma Group Limited (stock code: 8072) from October 2015 to December 2015 and September 2017 to December 2017 respectively. He was a non-executive director of ZH International Holdings Limited (formerly known as Heng Fai Enterprises Limited) (stock code: 185) from July 2014 to July 2015. He was also an independent non-executive director of Imagi International Holdings Limited (stock code: 585) from May 2010 to January 2016 and an independent non-executive director of Mingyuan Medicare Development Company Limited (stock code: 233) from September 2014 to May 2015. The shares of the above mentioned companies are listed on the Stock Exchange. Dr. Lam was also the independent non-executive director of Vietnam Equity Holding (VEH) (Vietnam Property Holding merged into (VEH) w.e.f. Jun 30, 2017), the shares of which are listed on the Stuttgart Stock Exchange.

A former member of the Hong Kong Bar Association, Dr. Lam is a Solicitor of the High Court of Hong Kong, an honorary fellow of Certified Public Accountants Australia, a fellow of Certified Management Accountants Australia, a fellow of the Hong Kong Institute of Arbitrators, an Accredited Mediator of the Centre for Effective Dispute Resolution (CEDR), a fellow of the Hong Kong Institute of Directors and an honorary fellow of the University of Hong Kong School of Professional and Continuing Education. Dr. Lam has over 30 years of international experience in general management, strategy consulting, corporate governance, direct investment, investment banking and fund management across the telecommunications/media/technology (TMT), consumer/healthcare, infrastructure/real estates, energy/resources and financial services sectors.

SENIOR MANAGEMENT

Ms. Zhang Ying (張瑩), aged 53, is a regional director of the Group and is responsible for overseeing the stores and the sales and operations in Northern China. Ms. Zhang is a director and general manager at Beijing Huizhilesi Commercial Co., Ltd.* (北京匯智思樂商貿有限公司).

Prior to joining the Group in July 2001, Ms. Zhang served as the north regional manager at Beijing Hong Kong Garland Trading Company Ltd (北京京港嘉寧商業有限責任公司), a branded toys distributor from March 1999 to July 2001, where she was primarily responsible for daily sales and operation management in Northern China. Ms. Zhang also last served as the north regional manager for the toys division at East Asiatic Company (China) Ltd., a wholly-owned subsidiary of Santa Fe Group A/S which is listed on NASDAQ Copenhagen A/S and is primarily engaged in the distribution of international consumer products from January 1994 to February 1999 where she was primarily responsible for daily sales and operations management in Northern China. From July 1986 to January 1994, Ms. Zhang served as a salesperson at Tianjin Pharmaceuticals, a parent company of three subsidiaries which are listed on the Shenzhen and Singapore stock exchanges respectively and is primarily engaged in the wholesale for medical equipment and medicine, where she was primarily responsible for preparing sales forecast, preparing and tracking orders and tracking sales performance. Ms. Zhang received her Bachelor of Arts, majoring in Technological English, from Tianjin College of Technology (天津理工學院) (now known as Tianjin University of Technology) in China in July 1986.

Mr. Yang Kewei (楊可為), aged 50, is a regional director of the Group and is responsible for overseeing the wholesale distribution and the sales and operations in Central China. Prior to joining the Group in July 2001, Mr. Yang served as the Central area manager at Beijing Hong Kong Garland Trading Company Ltd (北京京港嘉寧商業有限責任公司), a branded toys distributor from April 2000 to July 2001, where he was primarily responsible for the business and operations in the region. From February 1999 to February 2000, Mr. Yang served as the area sales manager at Xuzhou Henkel Detergents and Cleaning Products Co., Ltd., a chemical product company, where he was primarily responsible for the sale of detergent products in the region. From May 1997 to February 1999, Mr. Yang served as the acting toy priority city manager at East Asiatic Company Marketing Services China, which is a wholly-owned subsidiary of Santo Fe Group A/S which is listed on NASDAQ Copenhagen and is primarily engaged in the distribution of international consumer products, where he was primarily responsible for the toys business in the region. Mr. Yang received his Bachelor of Economics in Commercial Economics from the Business College of the Shanghai University in China in July 1989. Mr. Yang obtained the qualification of an assistant economist granted by the Shanghai Occupational Reform Leading Group (上海市職稱改革領導小組) in June 1998.

Mr. Yang served as a supervisor of Shanghai Zhishang Garment Company Limited* (上海至尚服裝有限公司), its business licence was revoked on 19 October 2000 pursuant to Article 5 of the Measures for the Annual Inspection of Enterprises* (企業年度檢驗辦法) regarding annual inspections. It was previously engaged in the sales of clothing metals, accessories, arts and crafts, educational materials, electronics, telecommunication and mechanical products, renovation materials, chemical products and fashion design.

Ms. Zhang Weili (張偉麗), aged 54, is a regional director of the Group and is responsible for overseeing the consignment counters and the sales and operations in Southern China. Prior to joining our Group in July 2001, from June 1989 to July 1992, Ms. Zhang served as an assistant to the director at Airland Mattress Company HK Ltd. (Shenzhen) (香港雅蘭床具有限公司(深圳)) (now known as Shenzhen Furniture Ltd.), which is primarily engaged in the manufacturing and sales of mattresses and household products, where she was responsible for the management of the daily operations of the director's office and co-ordination of various departments. Ms. Zhang received her Bachelor of Business Administration, majoring in Industrial Electronic Automation, from Shanghai University in China in July 1985.

Ms. Zhang served as a supervisor of Shenzhen City Baodali Commercial Company Limited* (深圳市寶達利商貿有限公司), the business licence of which was revoked on 16 January 2012 due to its failure to undergo the annual inspections as required under the relevant PRC regulations. Ms. Zhang also served as a manager and director at Shenzhen City Kang Dashun Commercial Company Limited* (深圳市康達順商貿有限公司), which was established in the PRC prior to its dissolution on 11 December 2015. It was previously engaged in domestic commerce and material supplies. Its business licence was revoked on 7 December 2012 due to its failure to undergo the annual inspections as required under the relevant PRC regulations.

Ms. Chang Rong (常蓉), aged 49, is the director for finance management, human resources and information technology of the Group and is responsible for overseeing finance management, human resources and information technology management in the PRC. Prior to joining the Group in May 2004, from 1995 to 2000, Ms. Chang served as the regional finance manager at Jardine Logistics (China) Ltd., a logistics company, where she was primarily responsible for supervising its finance team. Ms. Chang received her Bachelor of Laws, majoring in Economic Law, from the Beijing Professional Business Institute in China in July 1992. Ms. Chang received her Master of Commerce in Accounting and Finance from Deakin University in Australia in April 2004. Ms. Chang was admitted as a certified public accountant in China in May 2001.

Mr. Liang Dasheng (梁大生), aged 47, is the sales and operations director of the Group and is responsible for overseeing the sales management of our key accounts and infant products and the management of the supply chains. Prior to joining the Group in May 2013, Mr. Liang served as the senior sales operations manager at Asurion (Tianjin) Telecommunications Technology Services Co., Ltd. Beijing branch, which is primarily engaged in the provision of mobile protection services, from January 2012 to January 2013 where he was primarily responsible for sales operations and co-ordination and data analysis. From December 2007 to November 2011, Mr. Liang served as the retail and sales operations manager at Microsoft (China) Co., Ltd., which is primarily engaged in the provision of software and hardware products and listed on the NASDAQ stock exchange, where he was primarily responsible for product development, developing channel strategy, data mining and operations management. From June 2007 to December 2007, Mr. Liang served as the regional general manager at Double A International Network (Shanghai) Co., Ltd., which is primarily engaged in the production of integrated pulp and paper mill, where he was primarily responsible for business development and management. From March 2005 to February 2007, Mr. Liang served as the regional director for Northern China at Guangdong Shenchang Trading Company Limited* (廣東慎昌貿易有限公司), where he was primarily responsible for business management and development. From March 2000 to August 2003, Mr. Liang served as the sales development manager at PepsiCo (China) Limited Shanghai branch, which is primarily engaged in the beverage industry and listed on the New York stock exchange, where he was primarily responsible for sales management, strategy and execution. From November 1998 to March 2000, Mr. Liang served as a training consultant at AchieveGlobal, which is primarily engaged in the provision of training consultancy services, where he was responsible for providing training, business consultancy services and analysing customer needs. Mr. Liang received his College Diploma from Yangzhou University in Foreign Trade and International Business English in China in July 1991. Mr. Liang received his Executive Master of Business Administration from CIBT of Beijing Industrial University in General Business Management in China in September 2002. Mr. Liang received his Master of Business Administration from the City University in the U.S.A. in December 2003.

Ms. Cao Yuelin (曹玥琳), aged 44, is the marketing manager of the Group and is responsible for overseeing brand management and marketing strategies. Prior to joining the Group in July 2001, from March 1995 to March 1999, Ms. Cao last served as the sales supervisor of the toys department at East Asiatic Company where she was primarily responsible for sales and marketing in Beijing. Ms. Cao received her Bachelor of Technological Foreign Trade English from Beihang University in China in July 1994.

Mr. Ng Kwok Shek Marco (吳國碩), aged 42, is the general manager, Hong Kong retail and is responsible for overseeing retail operations in Hong Kong. Prior to joining the Group in June 2016, Mr. Ng served as the sales manager at Lane Crawford (Hong Kong) Limited, a premier retailer, from March 2013 to May 2016, where he was primarily responsible for the men's and women's sales operations management. From October 2010 to February 2013, Mr. Ng served as the operations director at Golfjunkie (China) Ltd., a retailer where he was primarily responsible for operations management. From July 2008 to September 2010, Mr. Ng served as the area manager at ImagineX Group, a premier retailer, where he was responsible for sales performance for the Marc Jacobs brand in Hong Kong. Mr. Ng finished his secondary school education at Hong Kong Sam Yuk Secondary School in June 1993.

Ms. Wong Yuk Ki (王毓琦), aged 38, is our joint company secretary responsible for corporate finance, investor relations and company secretarial matters. Prior to joining the Group in April 2017, Ms. Wong served the Group as the representative of Acebright International Limited (where she served as a director since November 2008) from February 2013 to April 2017, during which she provided consultancy services including corporate finance, investor relations and corporate development. From March 2007 to July 2009, Ms. Wong served as the vice president, debt capital markets of Sumitomo Mitsui Banking Corporation responsible for syndicated loans for Australia, New Zealand, South Korea, Thailand and the Philippines. From September 2003 to March 2007, Ms. Wong served as the vice president, commercial banking of Hongkong and Shanghai Banking Corporation Limited. From September 2001 to September 2003, Ms. Wong worked at PricewaterhouseCoopers where she last served as a senior associate responsible for listing, advisory and auditing services in the PRC, Hong Kong and Taiwan.

Ms. Wong is the founder and chairman of SENPHA, a registered charity focusing on mental health in Hong Kong. Ms. Wong has been a Fellow member of the Certified Practising Accountants Australia since December 2014 and a Certified Banker of the Hong Kong Institute of Bankers since November 2007. Ms. Wong received her Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 2001 and her Master of Social Sciences in Applied Psychology from the City University of Hong Kong in July 2015.

JOINT COMPANY SECRETARIES

Ms. Wong Yuk Ki (王毓琦) is one of the joint company secretaries appointed on 26 April 2017. For details of her background, please refer to the pervious page.

Ms. Li Shan Mui (李珊梅), aged 44, is one of the joint company secretaries appointed on 14 June 2017. Ms. Li was admitted as a certified public accountant in Hong Kong since January 2005, a fellow of the Association of Chartered Certified Accountants in April 2009, an associate member of The Taxation Institute of Hong Kong in September 2010 and Certified Tax Adviser in Hong Kong in September 2010. Ms. Li has extensive working experience in auditing, accounting, budgeting and financial analysis, and has more than eight years of experience in company secretarial, corporate governance and corporate finance roles. Ms. Li was the company secretary of Mayer Holdings Limited, a company listed on the Stock Exchange, from December 2014 to August 2017, and was its independent non-executive director from October 2014 to December 2014. Ms. Li was also the company secretary of Global Energy Resources International Group Limited, which is listed on the Growth Enterprise Market of the Stock Exchange, from January 2010 to March 2015.

Ms. Li received her Bachelor of Arts in Accounting from the University of Hertfordshire in the United Kingdom in June 2001.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2017 was a challenging year for the Group's business. Despite an increase in the Group's revenue of approximately HK$223.8 million, representing a 14% increase from prior year, and more stringent cost control measures implemented during the year, we have recorded a decrease in net profit of approximately HK$24.6 million, representing a 27% decrease from prior year, mainly due to (i) the decline in gross profit margin of 3.4% from 49.9% in 2016 to 46.5% in 2017; (ii) increase in general and administrative expenses for larger scale of operations and compliance costs; (iii) share-based payment expenses of approximately HK$3.7 million regarding the share options granted in 2017; and (iv) non-recurring listing expenses in connection with the listing of the Company's shares in November 2017.

Increase in the Group's revenue was mainly brought by (i) the increase in the number of retail points; (ii) the increase in comparable retail points sales and (iii) the rapid growth in the online sales.

Despite the Group's operating results being considerably affected by the abovementioned matters, we have continued to strengthen our leadership role and competitive advantages over the broader market through improvement of the consumer experience and further enhancement of our brand portfolio to ensure that we are delivering an optimal mix of the latest products to our customers in a timely manner. We also strive to improve our gross profit margin by introducing more high quality new brands. On the other hand, we continue to exercise stringent cost control measures and enhance the overall store efficiency in order to improve the Group's cost structure.

EXECUTIVE SUMMARY

Business Developments

Self-Operated Retail Channels

We continued to strengthen the Group's extensive retail network in the PRC. Our retail channels are self-operated and comprise (i) retail shops; (ii) consignment counters in department stores and a global toy store chain and (iii) online stores. During the year, we continued to strategically expand our retail network into prime locations so as to capture the growth opportunities from our target customers. As at 31 December 2017, we sold our products through 242 retail shops and 535 consignment counters, which sum up to 777 retail points, representing an increase of 37 retail points or 5% compared to 2016 in the PRC. These retail points were located in 77 cities across 25 provinces, autonomous regions and municipalities in the PRC, of which 568 of our retail points were located in Tier 1 and Tier 2 cities, and 209 were in Tier 3 cities. Our retail shops and consignment counters in the PRC are mainly located in well-known department stores or major shopping malls in Tier 1, Tier 2 and Tier 3 cities. We also had three retail shops (being LEGO Certified Store ("LCS")) in Hong Kong as at 31 December 2017. To capture the e-commerce market, in addition to our retail points, we operated 14 online stores on third party-operated online platforms as at 31 December 2017.

Retail shops

Our retail shops include both single-brand shops (i.e. those which sell products under brand names, such as LEGO) and multi-brand shops (i.e. those which are operated in our own brands, namely Kidsland and Babyland, and distribute different branded toys and infant products). Kidsland stores house multiple brands offering toys for children, while Babyland stores offer baby toys and infant products for infants.

The following table sets forth the revenue contribution from each type of our retail shops for the years indicated:

	2017 HK$' million	2016 HK$' million
Multi-brand retail shops		
– Kidsland stores	**405.0**	346.5
– Babyland stores	**24.6**	25.5
Sub-total:	**429.6**	372.0
Single-brand retail shops		
– LEGO brand stores/LCS	**151.9**	66.8
– CHICCO brand stores	**2.4**	2.1
– French kids apparel brand stores	**1.3**	2.5
Sub-total:	**155.6**	71.4
Total:	**585.2**	443.4

The following table sets forth the changes in the number of our retail shops for the years indicated:

	2017	2016
Retail shops		
At the beginning of the year	**217**	198
Addition of new retail shops	**51**	38
Closing of retail shops	**(23)**	(19)
Net increase in the number of retail shops	**28**	19
At the end of the year	**245**	217

During 2017, we strategically expanded our Kidsland retail network into prime locations, occupying most major shopping malls to attract target customers, resulting in a growth of approximately HK$58.5 million in revenue. Besides, during the year, we have opened in the PRC three LCS, a new concept of LEGO flagship shops which was first introduced in Hong Kong in 2016. For Hong Kong, while we continued boosting the sales of the LCS opened in 2016, at the same time, we introduced two more LCS to cater to market demand from different districts. These together brought a growth in our LEGO brand stores/LCS sales during 2017.

Consignment counters

Most of our consignment counters located at department stores are operated under the brands of Kidsland and Babyland. We have entered into consignment agreements with department stores and a renowned global toy store chain to open and operate consignment counters.

During 2017, we continued to open our consignment counters only in strategically selected well-known department stores. The following table sets forth the changes in the number of our consignment counters for the years indicated:

	2017	2016
Consignment counters		
At the beginning of the year	**524**	497
Addition of new consignment counters	**86**	81
Closing of consignment counters	**(75)**	(54)
Net increase in the number of consignment counters	**11**	27
At the end of the year	**535**	524

Online stores

To access China's rapidly growing online retail market, we launched Kidsland and Babyland stores, and flagship stores of brands such as Silverlit, Aprica, K's Kids, OXO, Siku, Schleich and Chicco, on different third-party operated online platforms, such as Tmall, JD.com, Xiaohongshu (小紅書) and Kaola (網易考拉), for the sale of products distributed by the Group in the PRC, such as construction toys, wooden toys, electronic products, action figures, baby strollers, infant car seats, and accessories for infants.

As at 31 December 2017, we had established ten flagship online stores on Tmall, two online stores on JD.com, a Kidsland store on Xiaohongshu and a Kidsland store on Kaola. Other than our online Kidsland store, each of our online stores offers flagship products under its respective brand.

Wholesale channels

In addition to self-operated retail channels, we expanded our distribution network in the wholesale channel, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC.

Distributors

As at 31 December 2017, we had 962 distributors, which operated a total of over 2,900 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. These distributors purchase our products and then on-sell them through their own retail shops or third party retailers. Same as prior years, in 2017, in order to expand our network into places with promising market demand but without the presence of our self-operated retail points, we had engaged distributors based on our strict selection criteria. Selling our products to distributors allows us to utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position. By carefully utilising distributors' geographical base, locations of their retail points, distribution network, experience in retail and management, management style, business strategies, financial resources, delivery capabilities and warehousing capacities, we have built an extensive distribution network across the PRC.

The following table sets forth the changes in the number of distributors for the years indicated:

	2017	2016
Distributors		
At the beginning of the year	**805**	694
Addition of new distributors	**374**	290
Expiry without renewal of agreements with distributors	**(217)**	(179)
Net increase in the number of distributors	**157**	111
At the end of the year	**962**	805

Hypermarket and Supermarket Chains

The Group sells our products to some hypermarket and supermarket chains which have presence across the PRC. Generally, hypermarkets and supermarkets are broadly categorised into (i) shopping clubs with membership system, (ii) upscale supermarkets, (iii) community supermarkets; and (iv) convenience stores. We select hypermarket and supermarket chains on the basis of their market position, retail network, logistics capabilities, financial conditions and compatibility with our business strategies. We generally expect hypermarket and supermarket chains to have electronic sales reporting system which allows us to access information in such system, so that we can conduct real time reconciliation of sales records. Sale of our products at hypermarket and supermarket chains enables our products to reach wider groups of end-users and bring positive sales results.

As at 31 December 2017, we had wholesale arrangement with 14 hypermarket and supermarket chains in the PRC. As at 31 December 2017, these hypermarket and supermarket chains had 640 retails points in Tier 1, 2 and 3 cities (based on the information provided by the hypermarket and supermarket chains).

The following table sets forth the changes in the number of hypermarket and supermarket chains for the years indicated:

	2017	2016
Hypermarket and supermarket chains		
At the beginning of the year	**12**	8
Addition of new hypermarket and supermarket chains	**3**	4
Termination or expiry of agreements with hypermarket and supermarket chains	**(1)**	–
Net increase in the number of hypermarket and supermarket chains	**2**	4
At the end of the year	**14**	12

Online Key Accounts

Online shopping had rapidly grown to become one of the mainstream distribution channels in the PRC. To access this rapidly growing online market, our products are sold through the online platforms of our online key accounts, such as JD.com, Amazon, VIP.com, Dangdang and Suning. We select our online key accounts on the basis of their reputation, financial condition and market share. During 2017, the number of our online key accounts was relatively stable.

The following table sets forth the changes in the number of online key accounts for the years indicated:

	2017	2016
Online key accounts		
At the beginning of the year	**14**	11
Addition of new online key accounts	**5**	4
Termination or expiry of agreements with online key accounts	**(6)**	(1)
Net (decrease)/increase in the number of online key accounts	**(1)**	3
At the end of the year	**13**	14

FINANCIAL REVIEW

Revenue

For 2017, the revenue of the Group increased by 14% from approximately HK$1,638.4 million for 2016 to approximately HK$1,862.2 million. The increase in revenue was mainly due to (i) the increase in the number of retail points; (ii) the increase in comparable retail points sales; and (iii) the rapid growth in the online sales.

The table below sets out the Group's revenue by channel for the years indicated:

	2017 HK$'000	2016 HK$'000
Self-operated retail channels		
– Retail shops	**585,203**	443,372
– Consignment counters	**580,465**	538,993
– Online stores	**90,271**	65,344
Sub-total:	**1,255,939**	1,047,709
Wholesale channels		
– Online/offline wholesale		
Distributors	**499,916**	514,195
Hypermarkets and supermarket chains	**48,706**	35,931
Online key accounts	**57,615**	40,539
Sub-total:	**606,237**	590,665
Total:	**1,862,176**	1,638,374

During 2017, sales of toy products accounted for 92.9% (2016: 90.1%) of our revenue and sales of infant products accounted for 7.1% (2016: 9.9%) of our revenue.

Same as prior year, for 2017, the Group's revenue was mainly contributed by self-operated retail channels. During 2017, revenue of our self-operated retail channels grew faster than that of our wholesale channels. This was mainly due to (i) the increase in the number of our retail points; (ii) the increase in comparable retail points sales; and (iii) the rapid growth in online stores' sales in 2017. The increase in spending power of the residents in Tier 1 and Tier 2 cities, of which our retail points are located, fueled the Group's retail sales growth. The Group's revenue contributed by wholesale channels, on the other hand, was relatively stable and experiencing a lower level of expansion.

Self-operated retail channels

For 2017, revenue contributed by self-operated retail channels increased by 20% from approximately HK$1,047.7 million for 2016 to approximately HK$1,256.0 million. Same as prior year, revenue of self-operated retail channels was mainly contributed by consignment counters. However, due to (i) the increase in the number of retail shops; (ii) the introduction of three LCS in the PRC and two new LCS in Hong Kong during 2017, which generated a higher sales per square foot compared to Kidsland and Babyland shops; and (iii) the rapid development of online stores, the proportionate sales of consignment counters decreased while that of the retail shops and online stores increased.

The following table sets forth our comparable retail points sales for the years indicated:

	2017	2016
Self-operated retail points		
A. Retail shops		
Number of comparable retail shops*	**159**	130
Average revenue per comparable retail shop		
– current year (RMB'000)	**2,189.1**	2,432.4
– prior year (RMB'000)	**2,014.6**	2,256.0
Growth in comparable retail shops sales during comparable period	**8.7%**	7.8%
B. Consignment counters		
Number of comparable consignment counters*	**376**	371
Average revenue per comparable consignment counter		
– current year (RMB'000)	**1,153.4**	1,193.9
– prior year (RMB'000)	**1,117.3**	1,246.1
Growth in comparable consignment counters sales during comparable period	**3.2%**	(4.2)%
C. Overall		
Number of comparable retail points*	**535**	501
Average revenue per comparable retail point		
– current year (RMB'000)	**1,461.2**	1,515.3
– prior year (RMB'000)	**1,384.0**	1,508.1
Growth in comparable retail points sales during comparable period	**5.6%**	0.5%

* Comparable retail points sales refer to revenue generated from our self-operated retail points existing at the end of the relevant financial year, which have been operating continuously for at least 24 months immediately prior to the end of that financial year. For example, the comparable self-operated retail points for 2016 and 2017 are retail points that were open throughout both 2016 and 2017. Difference between number of comparable retail points and total number of retail points is attributable to retail points opened or closed or under renovation during the years under comparison. Our calculation of comparable retail points sales information may be different from those adopted by other companies, and our comparable retail points sales information may not be comparable to the comparable retail points sales information reported by other companies.

The Group's comparable retail points sales growth of our retail shops increased from 7.8% for 2016 to 8.7% for 2017, and our comparable retail points sales growth of our consignment counters increased from (4.2)% for 2016 to 3.2% for 2017. Such increase was a result of our effort in optimizing the location mix of our retail points such that the average sales per square foot of our retail points was enhanced.

Wholesale channels

For 2017, the revenue contributed by wholesale channels increased by 3% from approximately HK$590.7 million for 2016 to approximately HK$606.2 million. Same as prior year, a majority of the revenue of wholesale channels was contributed by distributors.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 21% from approximately HK$820.6 million for 2016 to approximately HK$995.7 million for 2017. The increase was mainly due to the increase in sales volume. However, due to the decrease in the selling prices of some of our major products in the fourth quarter of 2017 as a result of the aggressive pricing strategy adopted by some of the major players in the PRC, gross profit margin of the Group decreased from 49.9% in 2016 to 46.5% in 2017. As a result of the foregoing, gross profit of the Group increased from approximately HK$817.8 million for 2016 to approximately HK$866.5 million for 2017.

Other Income

Other income increased by approximately HK$5.5 million from approximately HK$20.4 million for 2016 to approximately HK$25.9 million for 2017. Other income mainly consists of promotion income from brand owners and government grants. The increase was mainly attributable to the increase in promotion income from brand owners.

Other Gains and Losses

Other gains and losses decreased by approximately HK$1.8 million from a gain of approximately HK$1.3 million for 2016 to a loss of approximately HK$0.5 million for 2017. Other gains and losses mainly consists of (allowance for doubtful debt) reversal of allowance for doubtful debts and net exchange loss. The decrease was mainly attributable to the decrease in reversal of allowance for doubtful debts.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of consignment expenses, rental expenses and building management fee, salaries, other benefits and retirement benefit schemes contribution and advertising and promotion costs. Selling and distribution expenses increased by 6% from approximately HK$648.8 million for 2016 to approximately HK$688.5 million for 2017, which was mainly attributable to the increase in the number of the Group's retail points.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries, other benefits and retirement benefit schemes contribution, rental expenses and building management fees, office expenses and other general and administrative expenses. The administrative expenses increased by 39% from approximately HK$64.4 million for 2016 to approximately HK$89.8 million for 2017. The increase was mainly due to the expansion of the Group's business and the increase in professional fees for compliance costs.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the Listing. Listing expenses increased by 134% from approximately HK$8.5 million for 2016 to approximately HK$19.9 million for 2017, primarily because most of the work by professional parties was performed in 2017.

Finance Costs

For 2017, the Group's finance costs represented interest expenses arising from the bank loan drawn during the year.

Profit Before Tax

As a result of the foregoing, the profit before tax of the Group decreased by 21% from approximately HK$117.6 million for 2016 to approximately HK$93.5 million for 2017.

Income Tax

The Group's income tax expense increased from approximately HK$27.7 million for 2016 to approximately HK$28.1 million for 2017.

Profit and EBITDA (Earnings before Interest Income, Finance Costs, Income Tax, Depreciation and Amortisation) for the Year

Profit of the Group for 2017 decreased by 27% from approximately HK$90.0 million for 2016 to approximately HK$65.4 million for 2017. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, profit for the year decreased by 10%.

EBITDA of the Group for 2017 decreased by 10% from approximately HK$139.6 million for 2016 to approximately HK$126.2 million for 2017. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, EBITDA for the year increased by 1%.

Inventory

The inventory turnover days of the Group decreased from 211 days in 2016 to 206 days in 2017. The decrease in inventory turnover days was mainly due to the tighter control of inventory level.

Capital Expenditure

During the year, the Group invested approximately HK$40.3 million (2016: approximately HK$38.1 million) in property, plant and equipment, primarily attributable to the increase in the number of the Group's retail points.

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2017 were approximately HK$311.7 million compared to approximately HK$173.4 million as at 31 December 2016. The current ratio and quick ratio as at 31 December 2017 were 3.0 and 1.5 respectively (31 December 2016: 1.5 and 0.6 respectively).

As at 31 December 2017, the Group had aggregate banking facilities of approximately HK$90.0 million (31 December 2016: approximately HK$23.0 million) for bank loans and trade financing, of which approximately HK$84.9 million (31 December 2016: approximately HK$18.7 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

Gearing Ratio

The Group was in a net cash position as at 31 December 2017 and hence no gearing ratio is presented.

Charge of Assets

As at 31 December 2017, no charges was made on the Group's assets (31 December 2016: Nil).

Contingent Liabilities

As at 31 December 2017, the Group did not have significant contingent liabilities (31 December 2016: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Euros, Japanese Yen and Chinese Renminbi against the Hong Kong dollars. Although management monitors the foreign exchange risks of the Group on a regular basis, fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability.

Significant Investment Held, Material Acquisition And Disposal

The Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the year ended 31 December 2017.

Employees and Remuneration Policy

As at 31 December 2017, the Group had approximately 2,300 employees (2016: approximately 2,200 employees) located in the PRC and Hong Kong. Total remuneration for the year ended 31 December 2017 amounted to approximately HK$167.3 million (2016: approximately HK$199.6 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

PROSPECTS

We anticipate that 2018 will be another eventful year fueled by uncertainties over economic adjustment in the PRC. Consumer spending momentum is, in general, projected to go moderately upward. For instance, the ongoing increase in per capita spending power of the Chinese middle class may fuel the increase in general market demand for toy and infant products. Moreover, the relaxation of the two-child policy is expected to drive market growth for the overall toys and games industry in China.

We also see growth opportunities in the coming year that we plan to capitalise on with an aim to expand our distribution network, China in particular. We plan to increase market share across all distribution channels that include our multi-brands, single-brand, and shop-in-shop formats alongside our digital channel. Besides, in response to the emerging demand from digital platform users, we will put more effort on enhancing our online shopping experience and online distribution network, hence developing our online sales. We aim to continue our growth in the proportionate sales of our online stores and online key accounts in the future.

Moreover, we will continue to optimise our product mix by entering into distribution agreements with selected high quality toy and infant product brands to expand our product line. For instance, we have entered into a cooperation agreement and distribution agreements with ThreeSixty Sourcing Limited and two subsidiaries of MGA Entertainment Inc. in the first quarter of 2018. We believe these will broaden our product range and enhance our customers' shopping experience by introducing a new type of flagship store to the China market.

We are confident that the Group is even better equipped after difficult times and is well positioned for changes in the industry. We are looking forward to delivering strong collections of the latest and distinctive toy and infant product brands and to the launch of new concepts, such as experience centres. Besides, we will strengthen the recognition of our existing brands and enhance consumer loyalty and develop in skills and strategies on launching our own private labels or proprietary brands to ensure uniqueness. We will pursue our sustainable growth strategy by further leveraging the competitive strengths and advantages we have successfully developed, including our solid financial fundamentals, a well-balanced business around a portfolio of diverse yet complementary toy and infant product brands, and our leading position in the toy retailing industry.

REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 26 April 2017.

Pursuant to a reorganisation to rationalise the Group structure in preparation for the public listing of the Company's shares (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 29 May 2017. Details of the reorganisation are set out in the "Reorganisation" paragraph in the section headed "History, Reorganisation and Corporate Structure" of the Company's prospectus dated 31 October 2017 (the "Prospectus") and note 1 to the consolidated financial statements.

The Shares were listed on the Main Board of the Stock Exchange on 10 November 2017 (the "Listing Date").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Company's subsidiaries are engaged in the retail and wholesale of toy and infant products in the PRC and the retail of toys in Hong Kong. The activities of the principal subsidiaries are set out in note 32 to the consolidated financial statements.

The analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business for the year ended 31 December 2017, a discussion on the Group's future business development and principal risks and uncertainties that the Group is facing are provided in the sections headed "Chairman's Statement" on pages 3 to 4 and "Management Discussion and Analysis" on pages 13 to 22.

The financial risk management objectives and policies of the Group is set out in note 27 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2017 by key financial performance indicators is set out on pages 13 to 22.

The Company promotes the culture of adhering to the highest ethical standards of business conduct and commits to comply with all prevailing laws and regulations in all its operating regions. During the year, the Company was not aware of any material non-compliance or breach of legislation.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after 31 December 2017 and up to the date of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

The Directors recommended the payment of a final dividend of HK2.23 cents (2016: nil) per ordinary Share for the year ended 31 December 2017. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 25 May 2018 (the "2018 AGM"), the proposed final dividend will be payable on Wednesday, 13 June 2018 to shareholders whose names appear on the register of members of the Company on Friday, 1 June 2018.

REPORT OF THE BOARD OF DIRECTORS

ANNUAL GENERAL MEETING

The 2018 AGM is currently planned to be held on Friday, 25 May 2018. A notice convening the 2018 AGM and all other relevant documents will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2018 AGM AND FINAL DIVIDEND

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 18 May 2018.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the 2018 AGM. The record date for entitlement to the proposed final dividend is scheduled on Friday, 1 June 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 31 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Wednesday, 30 May 2018.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Group is always committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. A report on the environmental, social and governance aspects has been prepared with reference to the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules and is set out in the section headed "Environmental, Social & Governance Report" on pages 36 to 42 of this annual report.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 108 of the annual report.

SHARE CAPITAL

The changes in share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2017.

RESERVE

Details of the changes in reserve of the Group during the year are set out in the consolidated statement of changes in equity to the consolidated financial statements.

As at 31 December 2017, the reserves of the Company available for distribution to shareholders amounted to approximately HK$409,678,000.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's article of association, dividends shall be distributed out of the retained profits or other reserve, representing the share premium account of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 82% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier accounted for approximately 64% of the Group's total purchases. The percentages of sales for the year attributable to the Group's five largest customers combined accounted for approximately 6% of the Group's total sales.

None of the Director, any of their close associate or any shareholder of the Company (to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:
Mr. Lee Ching Yiu (Chairman) (appointed on 26 April 2017)
Dr. Lo Wing Yan William (appointed on 26 April 2017)
Ms. Zhong Mei (appointed on 26 April 2017)

Non-executive Directors:
Mr. Du Ping (appointed on 24 May 2017)
Ms. Duan Lanchun (appointed on 31 August 2017)

Independent non-executive Directors:
Mr. Cheng Yuk Wo (appointed on 20 October 2017)
Mr. Huang Lester Garson (appointed on 20 October 2017)
Dr. Lam Lee G. (appointed on 20 October 2017)

In accordance with the articles of association of the Company, all of our Directors will retire in the 2018 AGM, and being eligible, have offered themselves to be re-elected and re-appointed at the 2018 AGM.

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

Each of the Company's non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for a term of three years from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

No Director proposed to be re-elected at the 2018 AGM has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Biographical information of the Directors and the senior management of the Group are set out on pages 5 to 12 of this annual report.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors have been independent from their respective date of appointment to 31 December 2017 and remain independent as of the date of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Long positions

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Lee Ching Yiu	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation; beneficial owner *(Note 2)*	459,224,523	57.40%
Dr. Lo Wing Yan William	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation *(Note 3)*	23,999,280	3.00%
Ms. Zhong Mei	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation *(Note 4)*	29,999,100	3.75%
Mr. Du Ping	Beneficial owner *(Note 1)*	1,500,000	0.19%
	Held by controlled corporation *(Note 5)*	2,999,910	0.37%

(1) These represent the maximum number of Shares which may be allotted and issued to such Directors upon the exercise of the pre-IPO share options granted to each of them under the pre-IPO share option scheme approved and adopted by the then shareholders on 20 October 2017 (the "Pre-IPO Share Option Scheme"). Details of the Pre-IPO Share Option Scheme are set out under the section headed "Share Option Schemes" below.

(2) Mr. Lee Ching Yiu is the sole shareholder of Asian Glory Holdings Ltd. ("Asian Glory"). By virtue of the SFO, Mr. Lee Ching Yiu is deemed to be interested in the Shares of the Company which Asian Glory owns approximately 74.87% of Lovable International Holdings Limited. By virtue of the SFO, Asian Glory is deemed to be interested in the Shares of the Company it holds directly and the Shares held by Lovable International Holdings Limited. Further, Mr. Lee Ching Yiu is the beneficial owner of 10,000,000 Shares.

(3) Dr. Lo Wing Yan William is the sole shareholder of Constant New Limited. By virtue of the SFO, Dr. Lo Wing Yan William is deemed to be interested in the Shares of the Company directly held by Constant New Limited.

(4) Ms. Zhong Mei is the sole shareholder of Stars Link Ventures Limited. By virtue of the SFO, Ms. Zhong Mei is deemed to be interested in the Shares of the Company directly held by Stars Links Venture Limited.

(5) Mr. Du Ping is the sole shareholder of Merits Forest Global Limited. By virtue of the SFO, Mr. Du Ping is deemed to be interested in the Shares of the Company directly held by Merits Forest Global Limited.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules.

SHARE OPTION SCHEMES

Post-IPO Share Option Scheme

On 20 October 2017, a post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted by a resolution in writing by the then shareholders of the Company to incentivise 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 independent non-executive Directors) of the Company or any of its subsidiaries; and (iii) any advisors, consultants, suppliers, customers, distributors and such other persons (collectively, the "Post-IPO Eligible Participants") who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries for their contribution to the Group, for the purpose of motivating them to optimise their performance efficiency for the benefit of the Group, and attracting and retaining these Post-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

The options granted pursuant to the Post-IPO Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this annual report, the Post-IPO Share Option Scheme had a remaining life of more than 9 years.

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) at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

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 Post-IPO 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 a Share.

The Post-IPO 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 Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 20 October 2017, after which no further options will be granted or offered but the provisions of the Post-IPO 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 require.

The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date unless shareholders' approval has been obtained.

No share option was granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme since its adoption and up to 31 December 2017. No share option was outstanding under the Post-IPO Share Option Scheme as at 31 December 2017.

Pre-IPO Share Option Scheme

On 20 October 2017, the Pre-IPO Share Option Scheme was adopted by a resolution in writing passed by the then shareholders of the Company to incentivise or reward eligible full-time, key employees, consultants or Directors of the Company or any of its subsidiaries (the "Pre-IPO Eligible Participants") for their contribution to the Group for the purpose of motivate the Pre-IPO Eligible Participants to optimise their performance efficiency for the benefit of the Group, and attract and retain or otherwise maintain an on-going business relationship with the Pre-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Movements of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2017 were as follows:

	Outstanding at beginning of the year	Exercised during the year	Lapsed or cancelled during the year	Granted during the year	Outstanding at end of the year
Directors					
Mr. Lee Ching Yiu	–	–	–	4,000,000	4,000,000
Dr. Lo Wing Yan William	–	–	–	4,000,000	4,000,000
Ms. Zhong Mei	–	–	–	4,000,000	4,000,000
Mr. Du Ping	–	–	–	1,500,000	1,500,000
Employees	–	–	–	34,000,000	34,000,000
Total	–	–	–	47,500,000	47,500,000

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 payments. The following assumptions were used to derive the fair values of options granted in 2017:

	2017
Weighted average share price	**HK$1.15**
Exercise price	**HK$0.80**
Expected volatility	**45.96%**
Time-to-maturity	**24 October 2027**
Risk-free rate	**1.88%**
Expected dividend yield	**0.00%**

Except for the options which have been granted under the Pre-IPO Share Option Scheme, no share options have been granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme since its adoption and up to 31 December 2017.

Subject to the following vesting dates, any options granted under the Pre-IPO Share Option Scheme may be exercisable at any time commencing on the first date of the exercisable period and prior to the expiry of 10 years from that grant date:

	Grant date	Exercisable period
Directors		
Mr. Lee Ching Yiu	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Dr. Lo Wing Yan William	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Ms. Zhong Mei	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Mr. Du Ping	25 October 2017	(i) 600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 450,000 share options: From 25 October 2019 to 24 October 2027 (iii) 450,000 share options: From 25 October 2020 to 24 October 2027
Employees	25 October 2017	(i) 13,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 10,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 10,200,000 share options: From 25 October 2020 to 24 October 2027

Upon terminated by the Board or the shareholders in general meeting in accordance with the terms of the Pre-IPO Share Option Scheme, no further options will be offered but the terms of the Pre-IPO 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 thereto or otherwise as may be required in accordance with the terms of the Pre-IPO Share Option Scheme.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 31 to the consolidated financial statements and in the section "Connected Transactions" below, there were no other transactions, arrangements and contracts of significance, to which the Company's holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or a connected entity of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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:

Long positions

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding
Ms. Tang Hoi Lun	Interest of spouse *(Note 1)*	463,224,523	57.90%
Asian Glory	Held by controlled corporation *(Note 2)*	449,224,523	56.15%
FCPR Cathay Capital II	Held by controlled corporation *(Note 3)*	78,777,637	9.85%
Eurojoy Limited	Beneficial owner	78,777,637	9.85%
HSBC Global Asset Management (Hong Kong) Limited	Investment manager	43,780,000	5.47%

(1) Ms. Tang Hoi Lun is the spouse of Mr. Lee Ching Yiu. By virtue of the SFO, Ms. Tang Hoi Lun is deemed to be interested in the Shares of the Company which Mr. Lee Ching Yiu is interested in.

(2) Asian Glory owns approximately 74.87% of Lovable International Holdings Limited. By virtue of the SFO, Asian Glory is deemed to be interested in the Shares of the Company it holds directly and the Shares of the Company held by Lovable International Holdings Limited.

(3) FCPR Cathay Capital II is the sole shareholder of Eurojoy Limited. By virtue of the SFO, FCPR Cathay Capital II is deemed to be interested in the Shares of the Company which Eurojoy Limited holds.

CONNECTED TRANSACTIONS

Continuing connected transactions which are fully exempt from the reporting, annual review, announcement, circular, independent financial advice and independent shareholders' approval requirements

1A. *Leasing of the PRC Premises by Kidsland Trading Company Shanghai Co., Ltd. ("Shanghai Haisile")*

On 15 May 2017, Shanghai Haisile entered into a lease agreement (the "PRC Lease Agreement") with Land Smart Development Limited ("Land Smart"), pursuant to which Land Smart agreed to lease the premises situated at 21st Floor, No. 2067 Yanan West Road, Changning District, Shanghai, the PRC (中國上海市長寧區延安西路2067號21層) with a GFA of approximately 1,160 sq.m. (the "PRC Premises") to Shanghai Haisile for office use for a term commencing from 1 January 2016 and ending on 31 December 2018 (both days inclusive). The total rent for the 12-month term ended 31 December 2016 was approximately RMB1 million; whereas the total rent for each of the 12-month term ended 31 December 2017 and ending 31 December 2018 is RMB1.5 million (exclusive of utilities and management fees).

The rental expenses paid by the Group for the PRC Premises for the year ended 31 December 2017 was approximately RMB1.5 million.

Land Smart is wholly-owned by Asian Glory, one of the controlling shareholders of the Company and is therefore a connected person of the Company.

1B. *Leasing of the HK Premises by Kidsland Holdings Limited*

On 1 May 2017, Kidsland Holdings Limited entered into a lease agreement (the "HK Lease Agreement") with Politor Limited, pursuant to which Politor Limited agreed to lease the premises situated at certain portion of 28/F, Times Tower, Nos. 391–407 Jaffe Road, Hong Kong with a GFA of approximately 142 sq.m. (the "HK Premises") to Kidsland Holdings Limited for office use for a term commencing from 1 July 2017 and ending on 30 June 2019 (both days inclusive) at a monthly rent of HK$55,000 (inclusive of the government rates, rent and management fees). As a result, the total rent for each 12-month term is HK$660,000. Kidsland Holdings Limited has an option to renew the tenancy for another three years upon giving not less than three months' written notice before the expiration of the term. There were no historical transaction amounts for the year ended 31 December 2016 as Kidsland Holdings Limited only commenced to lease the HK Premises on 1 July 2017. The rental expenses for the HK Premises for the three years ending 31 December 2019 are HK$330,000, HK$660,000 and HK$330,000, respectively.

The rental expenses paid by the Group for the HK Premises for the year ended 31 December 2017 was approximately HK$330,000.

Politor Limited is wholly-owned by Asian Glory and Mr. Lee Ching Yiu, the controlling shareholders of the Company and is therefore a connected person of the Company.

Continuing connected transactions which are subject to the reporting, annual review and announcement but exempt from the circular, independent financial advice and independent shareholders' approval requirements

2. *Master Marketing Services Agreement with Captcha Media Limited ("Captcha Media")*

On 25 October 2017, Kidsland LCS Limited entered into a master marketing services agreement (the "Master Marketing Services Agreement") with Captcha Media, pursuant to which Captcha Media agreed to provide marketing services to Kidsland LCS Limited for a term commencing from 1 January 2017 to 31 December 2019 (both days inclusive).

The marketing services fees paid by the Group to Captcha Media amounted to approximately HK$2.6 million for the year ended 31 December 2017. The annual service fee payable by Kidsland LCS Limited pursuant to the Master Marketing Services Agreement is expected to be no more than HK$3.5 million, HK$5 million and HK$5.3 million for each of the three years ending 31 December 2019, respectively.

Captcha Media is owned as to 84% by Strategenes Limited, which is in turn wholly-owned by Dr. Lo Wing Yan William, one of the executive Directors, and his spouse. As such, Captcha Media is a connected person of the Company.

3. *Silverlit Exclusive Distribution Agreement with Dongguan Silverlit Toys Co., Ltd. ("Dongguan Silverlit")*
Pursuant to an exclusive distribution agreement dated 25 October 2017 (the "Silverlit Exclusive Distribution Agreement") between Silverkids Corporation (Tianjin) Ltd. and Dongguan Silverlit, for a term commencing from the Listing Date to 31 December 2019 (the "Initial Term"), pursuant to which Dongguan Silverlit agreed to:

(a) grant Silverkids Inc., a non wholly-owned subsidiary of the Company, and its subsidiaries (collectively the "Silverkids Group") a non-transferrable and exclusive right to market, sell and distribute toys (the "Distribution Toys") which are manufactured, or sourced from third parties, by Dongguan Silverlit or its associated companies in the PRC (the"Distribution"); and

(b) grant Silverkids Group a non-exclusive right to use the trade names and trademarks of Dongguan Silverlit and its associated companies (the "Licenced Trademarks") during the Initial Term and Sell-Off Period (defined below) at nil consideration, including but not limited to the trademark "Silverlit", for the purpose of the Distribution.

For the year ended 31 December 2017, the purchases by the Group from Dongguan Silverlit (and its associated companies) amounted to approximately RMB51.7 million. The price for the Distribution Toys to be supplied pursuant to the Silverlit Exclusive Distribution Agreement will be determined with reference to ex-factory prices (inclusive of VAT of 17%). For the year ended 31 December 2017, no fees were paid by the Group to Dongguan Silverlit for the use of the Licenced Trademarks.

The annual transaction target pursuant to the Silverlit Exclusive Distribution Agreement is RMB74 million, RMB94 million and RMB113 million for the three years ending 31 December 2019, respectively. In the event that the actual amount of purchase of the Distribution Toys by the Silverkids Group in any year is lower than 80% of such sales target, Dongguan Silverlit shall have the right to terminate the Silverlit Exclusive Distribution Agreement and Silverkids Group shall have a non-exclusive right to sell their existing, saleable inventory of the Distribution Toys in the PRC within six months from the date of such termination (the "Sell-Off Period").

The Silverlit Exclusive Distribution Agreement is a framework agreement which provides the mechanism for the operation of the Distribution. It is envisaged that from time to time and as required, individual purchase orders would be required to be entered into between the Group and Dongguan Silverlit (or its associated companies). Each individual purchase order will set out the relevant Distribution Toys to be purchased by the Group from Dongguan Silverlit, the purchase price, delivery time and any detailed specifications which may be relevant to those purchases. The individual purchase orders may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Silverlit Exclusive Distribution Agreement. As the individual purchase orders are simply further elaborations on the purchases as contemplated under the Silverlit Exclusive Distribution Agreement, they do not constitute new categories of connected transactions as far as the Listing Rules are concerned.

Dongguan Silverlit is indirectly owned as to 31% by Mr. Choi Kei Fung, a director of Silverkids Inc., and 69% by his associates. As such, Dongguan Silverlit is a connected person at the subsidiary level of the Company under the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Board has received an unqualified letter from the auditors of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditors' findings and conclusion on the above continuing connected transactions of the Group, stating that the auditors have not noticed anything that causes them to believe that any of these continuing connected transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involving the provision of goods or services by the Group; (c) were not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and (d) have exceeded the relevant annual caps for the financial year ended 31 December 2017. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the Company has compiled with the requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed above, during the year ended 31 December 2017, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Mr. Lee Ching Yiu and Asian Glory (the "Covenantors"), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company on 25 October 2017, pursuant to which each of the Covenantors has unconditionally and irrevocably undertaken to the Group that he/it will not, and will procure his/its close associates (other than members of the Group) not to directly or indirectly participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business (other than the business of the Group) that directly or indirectly competes, or may compete, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2017.

SIGNIFICANT RELATED PARTY TRANSACTIONS

The continuing connected transactions disclosed above also constitute related party transactions under the Hong Kong Financial Reporting Standards. A summary of significant related party transactions made during the year was disclosed in note 31 to the consolidated financial statements.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 10 November 2017, the Company issued 200,000,000 new ordinary Shares of nominal value of HK$0.01 each in connection with the listing of its Shares on the Stock Exchange (the "IPO"). The net proceeds after deducting the underwriting commission and other expenses arising from the IPO were approximately HK$288.3 million.

As stated in the Prospectus, the Company intended to use the proceeds to (i) expand the Group's retail network in the PRC and Hong Kong; (ii) strengthen the Group's capabilities in product development under the Group's existing or new brands; (iii) develop experience centres and associated products; and (iv) working capital and other general corporate purposes.

An analysis of the utilisation of the net proceeds from the Listing Date up to 31 December 2017 is set out below:

	Use of proceeds as stated in the Prospectus HK$ million	Actual use of proceeds from the Listing Date to 31 December 2017 HK$ million
Expand the Group's retail network in the PRC and Hong Kong		
– Open flagship toy stores in the PRC	60.5	–
– Open Kidsland and Babyland stores in the PRC	46.1	1.5
– Open LEGO Certified Stores in the PRC and Hong Kong	34.6	–
– Upgrade the information technology system, develop our online business and upgrade store image, visual display and other marketing expenses at the retail points	34.6	0.9
Strengthen the Group's capabilities in product development under the Group's existing or new brands	51.9	–
Develop experience centres and associated products	31.7	–
Working capital and other general corporate purposes	28.9	–
	288.3	2.4

The remaining balance of such net proceeds was kept in banks and approved financial institutions in Hong Kong.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes as an incentive to Directors and eligible employees, details of the scheme is set out in the section headed "Share Option Schemes" above and in note 25 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

According to the Company's articles of association, each Director is entitled to the compensation out of the assets of the Company for all losses or liabilities incurred due to the execution of his/her duties or taken place related to such execution. The Company has taken out the appropriate Directors' and officers' liability insurance policy for the Directors and officers of the Group as a means of security.

EQUITY – LINKED AGREEMENT

Apart from the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the Company has not entered into any equity-linked agreement during the year ended 31 December 2017 or there was not any subsisting equity-linked agreement entered into by the Company at the end of the year ended 31 December 2017.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Shares of the Company.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules since the Listing Date and up to the date of this annual report.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$1,253,000.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Mr. Lee Ching Yiu, *Chairman*
21 March 2018

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

The Group was the largest toy retailer by retail sales value in 2016. The Group is engaged in the retail and wholesale of mainly toys and infant products in the PRC, along with Hong Kong toy's retail.

LEGO is the Group's largest brand owner, contributing over 60 percent of our sales in total. Notwithstanding, the Group has a portfolio consisting of 27 renowned international brands sourced from 24 brand owners including Silverlit, Siku, Schleich, Brio, K's Kids and Aprica.

As a newly listed company on the Stock Exchange, the Group has dedicated itself into following the requirement of the Environmental, Social and Governance Reporting Guide ("Environmental, Social and Governance Guide") in Appendix 27 to the Listing Rules, and has prepared the *2017 Environmental Social and Governance Report* (thereafter "ESG Report"). The scope of this report will cover the Group's first year's environmental, social and governance performance, with the management's intention to provide a direction for the Group's sustainability goals.

The reporting period of this report covers the date from 1 January 2017 to 31 December 2017 (the "Reporting Period").

ENVIRONMENT

The Group dedicates to provide our customers a better parenthood and childhood experience via its products, and to maintain this relationship with its customers for their future generations, therefore, the Group takes up its part of environmental responsibility, minimise the potential impact its operations may cause.

During the Reporting Period, the Group has not violated any relevant environment laws and regulations.

The following sections disclose the Group's air and water emissions data, consumption of water, energy and raw materials that will set the fundamentals for its future environmental policies.

Air Emission

The Group's operation consists of shopfront retail and online wholesales. Since the Group does not directly manufacture any of its goods sold, or involve in any combustion activity, there is neither direct emission (scope 1 emission), nor other air pollutants released by its operating activities.

Carbon Emission

Carbon emission by the Group is mainly contributed by the consumption of electricity in the Group's shopfronts and offices. As a summary, and based on its electricity consumption in Hong Kong alone, the carbon footprint for the Group in 2017 was 40.8 tCO_2e (scope 2 in-direct emission), resulting from a 74,780 kWh of purchased electricity.

With this information available, the Group will further investigate and work with its employees, in collaboration with external stakeholders, on enhancing its overall performance and minimizing our carbon footprint through efficient electricity consumption practices. In addition, the Group is currently in the process of consolidating the carbon emissions by its operating activities in the PRC. Further information and progress will be disclosed in the subsequent ESG Report.

Waste Management

As the final stop for its brand owner's manufactured goods, the group's operating activities involve a minimal generation of waste. The majority of its wastes generated are cardboard packaging materials, which will be sent to recycling companies upon disposal. The Group recorded a consumption of 29,274 pieces of paper for its operations in 2017.

The Group is not involved in the manufacturing of goods. Therefore, the Group does not have any hazardous waste, non-hazardous waste nor packaging material production. Details and figures on non-hazardous waste generated from our shops' activity will be disclosed in subsequent report once data consolidation is completed.

Use of Resources and Conservation Practices

The Group's operating activities are conducted in its offices and retail shops, and thus, conservation practices should begin there.

Energy

In offices, the Group equips its staff with energy efficient computers and shared printers for maximising energy efficiency. Staff are reminded to switch off computers or turn them into sleep mode after duty. Indoor temperature is kept at an optimal temperature with the smart control of air conditioning systems, and staff are reminded to turn the air conditioners off before leaving the office.

During the Reporting Period, the Group consumed a total of 74,780 kWh of electricity with an energy consumption intensity of 0.23 kWh/unit for its Hong Kong operation.

Water

The Group does not take part in any water consuming activity in its operations, and thus no direct consumption of water can be recorded. Staff lavatories are centrally managed by office and retail landlords as public areas.

The Group will monitor its performance on resource consumption from time to time for continuous improvement.

SOCIAL

It is important that the Group's staff are treated with respect and dignity while seeking to provide the best products and services to customers. This is reflected in the Group's policies in providing the best working environment and competitive employment remuneration to staff.

The Group has prepared the staff manual based on the relevant laws of the PRC and Hong Kong. The staff manual can assist newly-recruited staff to familiarise themselves with the Group's operations, employment and labour practices, etc. The staff manual also serves as the communication channel on important corporate policies to all employees so that the Group is managed under consistent values, leadership style, best practices and corporate culture.

During the Reporting Period, the Group had not violated any law and regulation on human resources.

Employment and Labour Practices

The Group complies with all applicable laws, regulations and industry standards on working hours. Employment and labour practices are communicated to staff via the aforementioned staff manual which is maintained in a manner of high transparency.

All staff are paid fairly with salary above minimum legal wages and incentive will be awarded taking into account of their contribution towards the Group's success. Working overtime is not encouraged by the Group but should be deemed appropriate by management in written application, and employee can be compensated with compensation leaves to be taken within 3 months from the date of overtime work on any working day of their choice. They will also receive transportation allowance for working overtime beyond 8:30 pm. Employee will receive overtime pay up to 3 times of their normal wage should they be required to work on a public holiday.

In addition to statutory holidays, the Group also provides paid-annual leave, funeral leave, marriage leave, maternity leave, paternity leave, sick leave and compensation leave to compassionate employees with relevant supporting documents. Furthermore, employees can apply for personal leave, subject to management's approval. Staff are also entitled to social insurance and medical insurance.

Equal Opportunity Employer

The Group adheres to the "Code of Conduct" required by brand owners as follows:

- Discrimination, directly or indirectly, in employment decisions, including hiring, promotion, dismissal wages and access to benefits on ground of race colour sex language, religion, political or other opinion, age, national, social or ethnic origin, property, sexual orientation, birth health status, trade union membership, mental or physical disability, or other status must not be engaged in or supported;

- Employees must not be subjected to mandatory health tests (e.g., HIV/AIDS or pregnancy) that have no relevance to the job function; and

- Vulnerable groups, such as migrant workers, which may be subject to less protection by national law, should be provided with equal benefits and opportunities as national workers.

Appraisal System and Resignation

The Group is keen to share its business success with hard-working employees. Therefore, a transparent and fair appraisal system is deployed to provide its staff with incentives for their excellence in work. The amount of incentives, the release date and frequency of release are upon the decision of the Remuneration Committee and the management, with the purpose to enhance staff morale. Moreover, all employees are entitled to receive double pay before Chinese New Year on a pro-rata basis. In order to maintain fairness and transparency of the appraisal system, management will assess staff's individual performance based on monthly, quarterly and/or annual appraisal. The annual performance evaluation will provide benchmark for management to decide on promotion of staff and corresponding salary adjustment.

The Group is dedicated to developing its employees' career path and facilitating their growth and learning. Any employees resigning from the Group are required to provide a one-month's written notice to their managers with reasons. They are required to fill in a handover checklist to relevant departments as part of their handover procedures and must complete their handover procedures within 15 days from the date of resignation.

Workplace Diversity

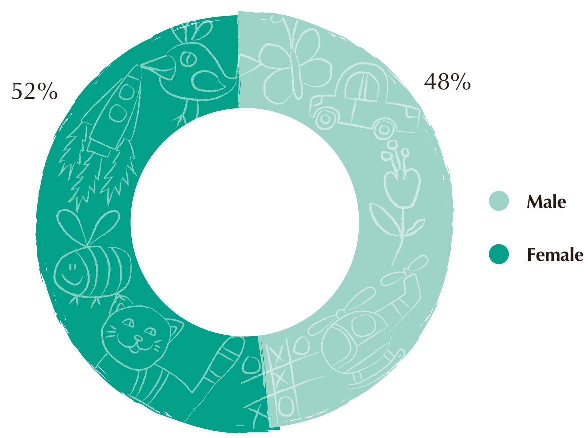
The Group welcomes candidates from different backgrounds. In Hong Kong, due to the nature of business, most of the staff are from younger age group ranging from 20s to 40s, with those below 30s representing the majority. The Hong Kong operations also have a fairly equal gender distribution, with male to female ratio being around 1:1.08. On the other hand, staff employed under the Group's PRC operation has a larger age range, spreading from below 30s to 50s, with a 1:7.97 male to female ratio. The larger number of female working for the Group might be attributable to the nature of working with children.

The following sets forth the gender and age distribution of the Group's staff in the PRC and Hong Kong as at 31 December 2017.

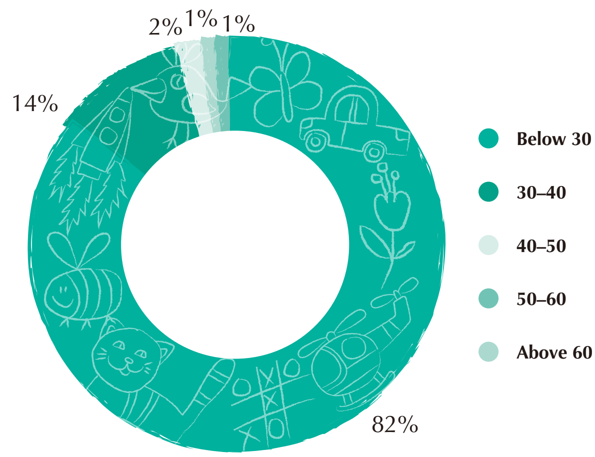
Gender and Age Distribution of Staff											
			Type of Employment		Gender		Age Range				
2017	Area	Total	Full-Time	Part-Time	Male	Female	Below 30	30–40	40–50	50–60	Above 60
	PRC	2,277	2,277	0	257	2,020	555	1,013	662	47	0
	Hong Kong	77	39	38	37	40	63	11	1	1	1

Table 1 – Gender and age distribution of staff

GENDER DISTRIBUTION OF STAFF IN HONG KONG

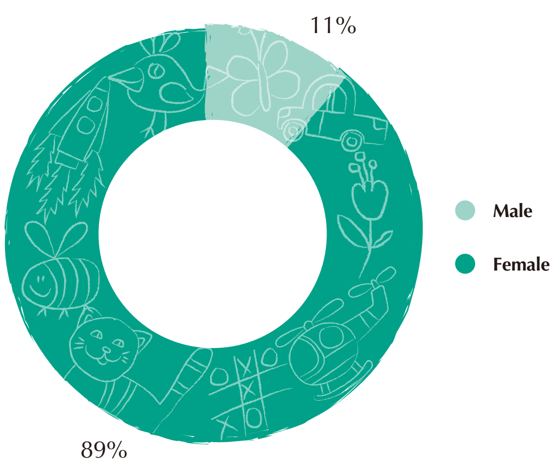


AGE DISTRIBUTION OF STAFF IN HONG KONG

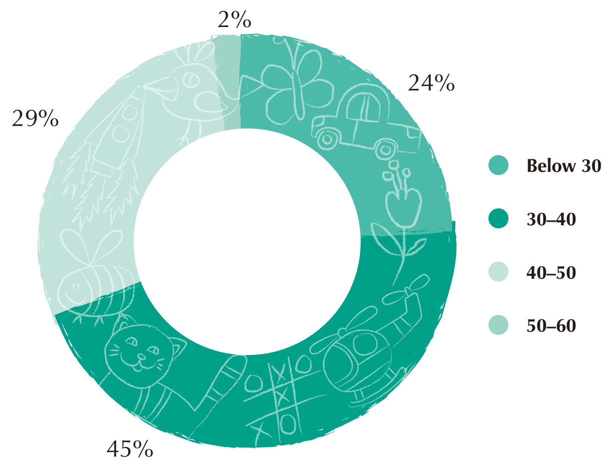


Gender and age distribution of staff in Hong Kong as at 31 December 2017

GENDER DISTRIBUTION OF STAFF IN THE PRC



AGE DISTRIBUTION OF STAFF IN THE PRC



Gender and age distribution of staff in the PRC as at 31 December 2017

Employee Retirement and Benefits Scheme

The Group participates in Social Insurance Scheme under the Social Insurance Law of the PRC and Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance (collectively, the "Pension Schemes") for all qualifying employees.

During the Reporting Period, total contributions paid or payable to the Pension Schemes by the Group amounted to approximately HK$31.0 million, which was recognized as expenses in staff costs in the consolidated statement of profit or loss and other comprehensive income.

In addition, the Group recorded a total of HK$72,000 in medical expenses, and as part of the benefits for employees' well-being.

Health and Safety

The Group recognizes health and safety as a major concern for its employees, and strives to provide employees with a safe and healthy working environment in compliance with national laws and regulations.

The Group has established a logistic management manual to provide standard procedures and guidance for its employees, so as to avoid hazards and dangers in the workplace. The manual includes safety practices on the prevention of fire hazards, heavy object transportation, operation of machinery, work from height and others. Contents of the manual are communicated with staff on regular basis or upon observation of unsafe practise conducted by staff to increase their safety awareness. The Group takes occupational health and safety seriously, and the Group will not tolerate the flagrant disregard of the safety protocals. Should any employees conduct unsafe working practices that impose danger to himself or others, they will be verbally warned. For serious violation, they may be subjected to a disciplinary action.

Despite the Group's effort in the maintenance of a safe working environment, the Group inevitably recorded 8 work injury incidences last year. 7 of them occurred within the PRC operation, while 1 happened in Hong Kong. Management treated these work injuries seriously, and conducted investigations to examine the root cause and feasible solutions to improve the procedures. Trainings were provided to enhance staff's safety awareness and the safety level of the working environment.

The Group had no work-related death recorded in 2017.

During the Reporting Period, the Group had no non-compliance with laws and regulations in relation to employees' health and safety.

Development and Training

The Group believes its success depends on the capability of its staff. In order to unleash the potential of its staff, the Group provides training on sales and management skills for different levels of staff.

The purpose of the training is to improve employee's soft and hard skills relevant to his work and to prepare him for career advancement, so as to meet the demands brought by the Group's business development. Employees are required to sign a training memorandum with the Group to agree on the length of service with the Group before such training is provided.

The following sets forth the number of training received by staff and its distribution by gender and staff ranking.

Number of Employees Trained by Gender

	Area	Total	Attendance	Training Ratio
Male	PRC	257	108	42%
	Hong Kong	37	20	54%
Female	PRC	2,020	1,752	87%
	Hong Kong	40	17	43%

Table 2 – Number of employees trained by gender

Training Hours Completed per Employee by Gender

	Area	Attendance (Head)	Average Training Hours	Total Hours
Male	PRC	108	12.7	1,369
	Hong Kong	20	29.8	596
Female	PRC	1,752	6.8	11,944
	Hong Kong	17	29.2	496

Table 3 – Training hours completed per employee by gender

Training Hours Completed per Employee by Employee Category

	Area	Attendance (Head)	Average Training Hours	Total Hours
Management	PRC	53	25.0	1,324
	Hong Kong	21	33.7	708
Staff	PRC	1,807	6.6	11,989
	Hong Kong	16	24.0	384

Table 4 – Training hours completed per employee by employee category

Prevention of Forced and Child Labour

The Group is not engaged in any form of child labour, nor hire any person of age below 18. Identification document must be verified before confirmation of employment to prevent inadvertent hiring of child labour.

Moreover, the Group forbids any form of forced labour, or modern forms of slavery such as trafficking. Forcing employees to work excessive overtime, confiscation of travel/identification documents, deposits or compensation are subtle forms of forced labour and is against the Group's policy. During the Reporting Period, the Group had no non-compliance with laws and regulations in relation to the prevention of child labour or forced labour.

Supply Chain Management and Product Quality Control

The Group sources its goods from established international brand owners whose manufacturing operations are in compliance with stringent international standards in terms of product quality, protection of consumer rights, anti-piracy, environmental protection, social awareness, etc. The Group will only select reputable brand owners with positive brand image and good practices on corporate social responsibility.

Protection of Copyright and Consumers Privacy

The Group's business depends heavily on its reputation as a reliable distributor. In order to gain trust from brand owners and consumers, the Group must take all necessary actions to protect the copyright of brand owners and the privacy of customers.

All users of the Group's online platform are subject to terms and conditions in relations to the distribution of materials obtained from its website. The Group forbids unauthorised distribution of materials, and reserves the right to take legal actions on violating parties. Should there be any copyright issue, the Group encourages inquiries via email and its legal team will provide advice and follow-up actions where necessary.

Consumer's information is confidential and is used solely for the Group's marketing. The Group will not disclose customer's information to third parties without prior consent.

The collection and disclosure of customer's information is subject to relevant laws and regulations of the PRC and Hong Kong.

During the Reporting Period, the Group had not violated any laws or regulations in relation to privacy, products and services quality.

Anti-Corruption

The Group complies with global anti-bribery and corruption law, takes a zero-tolerance approach to bribery and corruption and observes to the strictest applicable anti-bribery and corruption ('ABC') laws regulations and other rules (both global and local) including but not limited to, the U.S. Foreign Corrupt Practices act 1977 and the UK Bribery Act 2010 ('ABC Laws').

During the Reporting Period, the Group had not violated any laws or regulations in relation to corruption, bribery, extortion, fraud and money laundering.

COMMUNITY

For the past few years, the Group and its staff have dedicated resources and have made various contributions to local organizations, sponsoring various charity events and supporting the community. The Group's works and donations have helped a wide range of aspects, including the child, youth and health care sectors. In particular, our senior management are taking leads through direct participation, and some of their contributing organizations and respective works are as follows:

- Dr. Lo Wing Yan William, an executive Director, is the founding governor of the Charles K. Kao Foundation for Alzheimer's Disease and the ISF Academy. Dr. Lo is also the present chairman of Junior Achievement HK; and

- Ms. Wong Yuk Ki, one of the joint company secretaries, is the founder and chairman of SENPHA Limited, a registered charity in Hong Kong focusing on mental health advancement of the community. Various events were held for the cause.

During the Reporting Period, the Group donated a total of HK$1 million to the Community Chest of Hong Kong in supporting local community activities. The Group also donated a total of HK$253,000 in supporting the China Social Welfare Foundation's charity event, namely "燈塔行動", in the PRC, to provide child care to those in need and the necessary operational support to the social welfare foundation.

The Group will continue its effort in supporting social welfare activities when opportunities arise.

CORPORATE GOVERNANCE REPORT

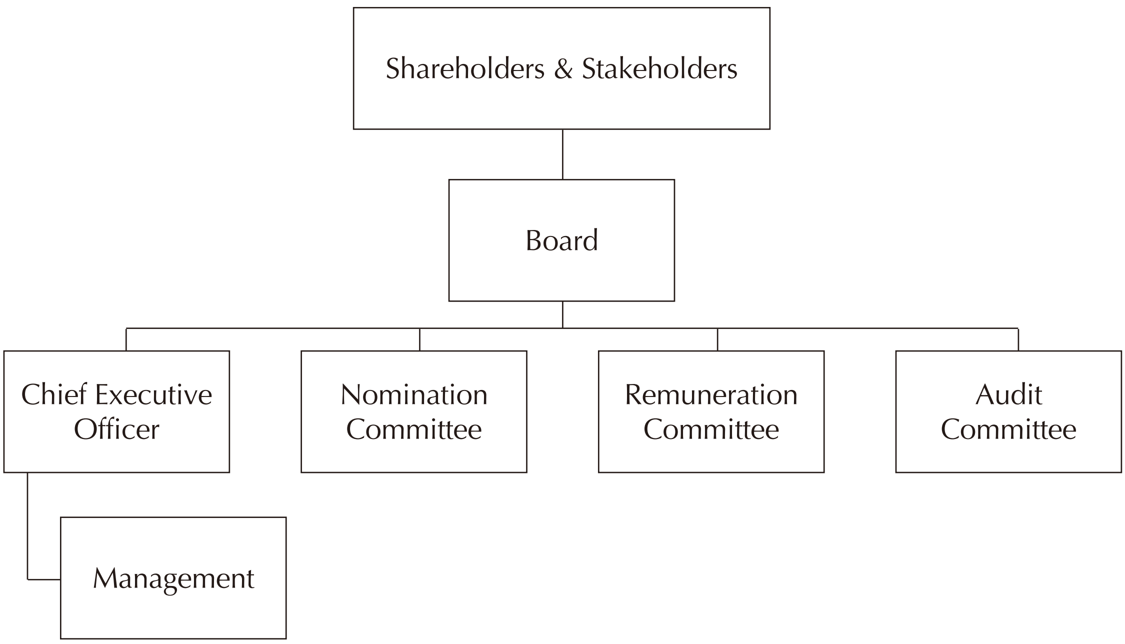
The Board is pleased to present this corporate governance report in the annual report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to follow best practices in corporate governance in order to enhance the shareholders' value by ensuring standards in integrity, transparency and quality of disclosure. As a newly listed company, the Company has emphasizes on a quality board, sound internal controls, transparency and accountability to all shareholders as its corporate governance principles. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Since the Listing Date and up to 31 December 2017, except for the stated matter below, the Company was in compliance with all relevant code provisions set out in the CG Code.

Code provision A.2.1 stipulates that the roles of chairman (the "Chairman") and chief executive officer (the "CEO") should be separate and should not be performed by the same individual. Both positions are currently held by Mr. Lee Ching Yiu. As the founder of the Group, Mr. Lee Ching Yiu has substantial experience in the toy industry. The Directors consider that the present structure provides the Group with strong and consistent leadership which facilitates the development of the Group's business strategies and execution of its business plans in the most efficient and effective manner. The Directors believe that it is in the best interest of the Company and its shareholders as a whole that Mr. Lee Ching Yiu continues to assume the roles of the Chairman and the CEO.

Code provision A.2.7 of CG Code requires the Chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. During the period between the Listing Date and 31 December 2017, the Chairman did not hold a meeting with the non-executive Directors without the executive Directors present as the Company became first listed on the Stock Exchange on 10 November 2017. A meeting was held subsequently in 2018 up to the date of this annual report with 100% attendance.



MODEL CODE SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions since the Listing Date and up to 31 December 2017.

LEADERSHIP

Board of Directors

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategies as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall strategies of the Group, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The Board has delegated to management the authority and responsibility for daily management of the Group, implementation of strategies approved by the Board, monitoring operating budgets, implementation of internal control procedures, and ensuring compliance with relevant statutory requirements and other rules and regulations. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

Board Composition

The Board currently consists of eight Directors with the following composition:

Executive Directors
Mr. Lee Ching Yiu *(Chairman and CEO)*
Dr. Lo Wing Yan William
Ms. Zhong Mei

Non-Executive Directors
Mr. Du Ping
Ms. Duan Lanchun

Independent Non-Executive Directors
Mr. Cheng Yuk Wo *(chairman of Audit Committee)*
Mr. Huang Lester Garson *(chairman of Remuneration Committee)*
Dr. Lam Lee G. *(chairman of Nomination Committee)*

To the best knowledge of the Company, none of the Board members have financial, business, family or other material/relevant relationships with each other. Such balanced Board is composed to ensure strong independence existed across the Board. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical details of Directors are set out on pages 5 to 12 under the section headed "Directors and Senior Management".

Chairman and Chief Executive Officer
Mr. Lee Ching Yiu takes both roles of the Chairman and CEO. He provides leadership and is responsible for the effective functioning and leadership of the Company.

Independent Non-Executive Directors

All of the Company's independent non-executive Directors are experienced and of high calibre. They are equipped with academic and professional qualifications in either law, accounting, and has extensive international business network. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given an annual written confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules, and the Company considers that all independent non-executive Directors are independent within the definition of the Listing Rules.

Since the Listing Date, the Board at all times has 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.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is held responsible for the Company's shareholders and stakeholders. It is responsible for the overall leadership and control of the Company, oversees the Group's strategic decisions and performance, and is responsible for promoting the success of the Company. The Board makes decisions on the strategies of the Group in the best interests of the Group, and reserves its right of decision all major matters relating to budgets, policy, strategies, internal control, risk management, material transactions, financial information, appointment of Directors and other significant operational matters of the Company.

All Directors have brought in precious and valuable business perspectives, experience and knowledge to the Board for its efficient and effective functioning. They are all provided with full and timely access to information of the Company as well as access to contact and services of the joint company secretaries 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.

Three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, are set up and delegated various responsibilities as set out in their respective terms of reference.

Through the CEO whom the Board has delegated authorities, the senior management of the Group is provided with authority and responsibility for implementing the decisions of the Board, directing and co-ordinating the daily operations and management of the Group.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Code provision A.6.5 of the CG Code provides that all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2017 to the Company. During the year ended 31 December 2017, each of the Directors participated in continuous professional development by reading materials relating to the discharge of their duties and responsibilities and regulatory updates.

The Company has also continuously updated Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

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. 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 agreement with the Company for a term of three years, which is terminable by not less than three months' notice in writing. Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for a term of three years, which is terminable by not less than three months' notice in writing.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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.

JOINT COMPANY SECRETARIES

Ms. Wong Yuk Ki and Ms. Li Shan Mui take up the role of joint company secretaries of the Company ("Joint Company Secretaries") to provide compliance and company secretarial services to the Group and assist the Group to cope with the changing regulatory environment and to suit different commercial needs.

Ms. Wong Yuk Ki was appointed as one of the Joint Company Secretaries on 26 April 2017, and is the primary point of contact at the Company for the company secretarial matters. Ms. Li Shan Mui was appointed as the other Joint Company Secretary on 14 June 2017.

The biographies of the Joint Company Secretaries are set out in the section headed "Directors and Senior Management" on page 12 of this annual report. Both Joint Company Secretaries undertook over 15 hours of professional training to update their skills and knowledge for the year ended 31 December 2017.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices and matters.

BOARD COMMITTEES

Three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, are established for the roles of overseeing particular aspects of the Group under defined terms of reference. The terms of reference of the Board Committees are provided on the Company's website and the Stock Exchange's website. A list of the Chairman and members of each Board Committee is set out under "Corporate Information" on page 2 of this annual report.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Cheng Yuk Wo (as committee chairman), Mr. Huang Lester Garson and Dr. Lam Lee G.

The terms of reference of the Audit Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; reviewing, in draft form, the interim and annual reports and accounts of the Group and significant financial reporting judgements contained therein; and overseeing the Company's financial reporting system, and the risk management and internal control systems.

The Audit Committee held one meeting during the period between the Listing Date and 31 December 2017 with 100% attendance, after the Company became first listed on the Stock Exchange on 10 November 2017. A meeting was subsequently held on 21 March 2018 up to the date of this annual report at which all members of the Audit Committee principally to review the Group's annual financial statements for the year ended 31 December 2017 and the Group's internal control environment. The consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee and the Audit Committee is of the opinion that such financial statements are complied with applicable accounting standards, the Listing Rules and other legal requirements and that adequate disclosures have been made. The Audit Committee also reviewed the Company's financial controls, internal control and risk management systems and noted that review of the same shall be carried out annually.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive Directors, namely Dr. Lam Lee G. (as committee chairman), Mr. Huang Lester Garson and Mr. Cheng Yuk Wo.

The terms of reference of the Nomination Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee is mainly responsible for reviewing the Board composition, structure, size and diversity of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the nomination, appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and CEO.

No meeting of the Nomination Committee was held from the Listing Date to 31 December 2017 as the Company became first listed on the Stock Exchange on 10 November 2017. Up to the date of this annual report, a meeting of the Nomination Committee was subsequently held on 21 March 2018 with 100% attendance to review the structure, size and composition of the Board, the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting. The board diversity policy was also reviewed at the meeting.

REMUNERATION COMMITTEE

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Huang Lester Garson (as committee chairman) and Mr. Cheng Yuk Wo and an executive Director, Dr. Lo Wing Yan William.

The terms of reference of the Remuneration Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on remuneration packages of the Directors and the senior management.

No meeting of the Remuneration Committee was held from the Listing Date to 31 December 2017 as the Company became first listed on the Stock Exchange on 10 November 2017. Up to the date of this annual report, a meeting of the Remuneration Committee was subsequently held on 21 March 2018 with 100% attendance to review the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management and other related matters.

The Company has adopted two share option schemes on 20 October 2017 (the "Share Option Schemes"). The purpose of the Share Option Schemes is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution of the Group. Details of the Share Option Schemes are set out in the Report of the Board of Directors. The emolument payable to Directors and senior management will depend on their respective contractual terms under service agreement/appointment letter and is fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

The remuneration of the Directors and senior management of the Company for the year ended 31 December 2017, by band is set out below:

Remuneration Band	Number of individuals
Nil to HK$1,000,000	7
HK$1,000,001 to HK$2,000,000	7
HK$2,000,001 to HK$3,000,000	2

Details of the remuneration of Directors and senior management are set out in notes 12 and 13 to the consolidated financial statements.

BOARD DIVERSITY POLICY

The Board has adopted on 20 October 2017 a board diversity policy (the "Board Diversity Policy") setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of Directors. 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. Certain duties are delegated to the Nomination Committee under the Board Diversity Policy. 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.

The Nomination Committee will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. After assessing the suitability of the Directors' skills and experience relevant to the Company's business, the Nomination Committee considered that the existing Board was suitably qualified with professional backgrounds and/or equipped with extensive expertise for the purposes of providing direction to and oversight of the Group's strategic and business in achieving its objectives.

Board Meetings

The Company planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order to ensure that all Directors could plan in advance their availability to attend the scheduled Board meetings. Additional meetings will be held as and when required. During the regular meetings of the Board, the Board reviewed the operation and financial performance, and reviewed and approved the annual and interim results.

During the period from the Listing Date to 31 December 2017, the Board has not held any meetings. After listing on the Stock Exchange, the Company has adopted the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals to discuss overall strategy as well as operations and financial performance of the Group. Up to the date of this annual report, one Board meeting was held on 21 March 2018. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Board minutes are kept by the Joint Company Secretaries and are open for inspection by the Directors. Every Board members are entitled to have access to Board papers and related materials and have unrestricted access to the advice and services of the Company Secretary, and have the liberty to seek external professional advice upon reasonable request.

General Meetings

The Board is responsible for maintaining an on-going dialogue with the shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation.

Attendance Records

Name	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
	Attendance/Number of Meetings since the Listing Date and up to 31 December 2017				
Mr. Lee Ching Yiu	–	–	–	–	–
Dr. Lo Wing Yan William	–	–	–	–	–
Ms. Zhong Mei	–	–	–	–	–
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
Mr. Cheng Yuk Wo	–	1/1	–	–	–
Mr. Huang Lester Garson	–	1/1	–	–	–
Dr. Lam Lee G.	–	1/1	–	–	–

AUDITORS' REMUNERATION

During the year, the remunerations paid/payable to the Company's auditors, Deloitte Touche Tomatsu, is set out as follows:

Services rendered	Fee paid/payable HK$'000
Audit services	7,150
Non-audit services *(Note)*	3,091
	10,241

Note: the non-audit services comprised mainly tax advisory services and internal control assessment.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. 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 auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on 54 to 57.

Internal Control and Risk Management

The Board acknowledges that it is responsible for safeguarding corporate governance through monitoring and reviewing the effectiveness of the risk management and internal control systems regularly through the Audit Committee.

The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed to manage and mitigate rather than eliminate the risk of failure 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. It also assists the Board in fulfilling its 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 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.

The Company has adopted 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, and to improve the effectiveness of its risk management and internal control systems.

Process used to Review the Effectiveness of the Risk Management and Internal Control Systems and to Resolve Material Internal Control Defects

The Company engaged an external advisory firm to conduct a review on the Group's internal control environment for the year ended 31 December 2017 and assist the Group of the adoption and implementation of the enterprise risk management systems. Results of the review were reported to the Audit Committee and the Board. Based on the findings and recommendations of the external advisory firm and confirmation of the management as well as the recommendation of the Audit Committee, the Board considered the risk management and internal control systems are effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of such review covers the adequacy of resources, training programmes, budgets, qualifications and experience of staff of the Group's accounting and financial reporting functions and their attitude against internal control of the Group. The Board will continue to work with the management to discuss and follow up on the status of remediation of the internal control weaknesses, if any, and to monitor the risks of the Group in the coming years.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

Certain measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include the following:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- All employees are required to strictly adhere to the employment terms regarding the management of confidential information.

- In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, are likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in the announcements or circulars of the Company is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

INTERNAL AUDIT FUNCTION

The Company does not have an internal audit department. The Board has reviewed the need for an internal audit department and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Shareholders to convene an 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 at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Joint Company Secretaries, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Eligible Shareholder(s) who wish to convene an EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong, which for the time being is at 28/F, Times Tower, 391-407 Jaffe Road, Wan Chai, Hong Kong, for the attention of the Company Secretaries.

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 at the EGM. The Requisition must be signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's share registrar in Hong Kong, Tricor Investor Services Limited. If the Requisition is found to be proper and in order, the Joint Company Secretaries will ask the Board to convene an EGM within two (2) months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition.

Putting enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Joint Company Secretaries at the Company's principal place of business in Hong Kong at 28/F, Times Tower, 391–407 Jaffe Road, Wan Chai, Hong Kong by post or by email to cosec@kidslandholdings.com.

Procedures for shareholders to propose a person for election as a Director

If a shareholder wishes to propose a person other than a director of the Company for election as a Director, the shareholder must deposit a written notice (the "Notice") to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for the attention of the Joint Company Secretaries of the Company.

The Notice must state clearly the name, the contact information of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and signed by the shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "Letter") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgement of the Notice and the Letter will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which the Notice to the Company may be given will be at least seven days.

The Notice will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Joint Company Secretaries will ask the Nomination Committee of the Company and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Procedures for shareholders to put forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's share registrar in Hong Kong at their respective address and contact details set out on page 2 of this annual report.

The request will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than twenty-one clear days and not less than twenty clear business days in writing if the Proposal requires approval in an annual general meeting of the Company; and

(2) Notice of not less than fourteen clear days and not less than ten clear business days in writing if the Proposal requires approval in an extraordinary general meeting of the Company.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll 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. As such, all the resolutions set out in the notice of the forthcoming annual general meeting of the Company will be voted by poll.

CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2017.

INVESTOR RELATIONS

The Company is committed to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings, as effective communication with shareholders is essential for enhancing investor relations and allowing investors to understand the Group's business performance and strategies. The Board endeavour to make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

The 2018 AGM of the Company will be held on 25 May 2018, with notice of the 2018 AGM sent to the shareholders not less than 21 clear days and not less than 20 clear business days before the date of 2018 AGM.

The Company maintains a website at www.kidslandholdings.com where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are made available for public access.

During the year under review since the Listing Date, 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 available on the Company's website and the Stock Exchange's website.

Deloitte. 德勤

TO THE MEMBERS OF KIDSLAND INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kidsland International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 107, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements 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 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 HKICPA's Code of Ethics for Professional Accountants (the "Code"), 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

KEY AUDIT MATTER (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value of inventories We identified the assessment of net realisable value of inventories as a key audit matter due to the significant judgments and estimates involved in the determination of the net realisable value of the inventories by the management of the Group. As disclosed in note 5 to the consolidated financial statements, allowance for inventories is estimated based on an assessment of the net realisable value of inventories by the management. In determining the net realisable value of the inventories, the management considers the current market conditions, business strategy, marketing and promotion plans, historical sales records and subsequent sales of the inventories. The carrying amount of the inventory balances as at 31 December 2017 was HK$617,690,000, net of the allowance for inventories of HK$18,638,000.	Our procedures in relation to assessment of net realisable value for inventories included: • Obtaining an understanding from the management how the allowance for inventories and the net realisable value of the inventories are estimated; • Assessing the reasonableness of the net realisable value of the inventories based on current market conditions, business strategy, marketing and promotion plans, historical sales records and subsequent sales of the inventories; • Tracing a selection of inventories with subsequent sales to the sales invoices; and • Evaluating the historical accuracy of the estimated net realisable values.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 HKFRSs issued by the HKICPA and the disclosure requirements of 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 judgment and maintain professional skepticism 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.

- 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.

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Woo King Wa.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	6	**1,862,176**	1,638,374
Cost of goods sold		**(995,692)**	(820,584)
Gross profit		**866,484**	817,790
Other income	7	**25,939**	20,374
Other gains and losses	8	**(458)**	1,256
Selling and distribution expenses		**(688,491)**	(648,808)
General and administrative expenses		**(89,814)**	(64,443)
Listing expenses		**(19,908)**	(8,525)
Finance costs	9	**(255)**	–
Profit before tax		**93,497**	117,644
Income tax expense	10	**(28,131)**	(27,658)
Profit for the year	11	**65,366**	89,986
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**38,477**	(31,547)
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation of foreign operations		**(4,905)**	1,164
Other comprehensive income (expense) for the year, net of income tax		**33,572**	(30,383)
Total comprehensive income for the year		**98,938**	59,603
Profit for the year attributable to:			
Owners of the Company		**59,352**	89,200
Non-controlling interest		**6,014**	786
		65,366	89,986
Total comprehensive income for the year attributable to:			
Owners of the Company		**92,772**	59,281
Non-controlling interest		**6,166**	322
		98,938	59,603
Basic earnings per share	15	**HK 9.4 cents**	HK 14.9 cents
Diluted earnings per share	15	**HK 9.4 cents**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**59,274**	48,802
Rental deposits	17	**24,919**	16,159
Deferred tax assets	22	**9,767**	10,589
		93,960	75,550
Current assets			
Inventories	18	**617,690**	506,059
Trade receivables	19	**191,584**	141,039
Other receivables, deposits and prepayments	19	**124,070**	71,423
Amount due from a related party	20	**–**	101
Bank balances and cash	21	**311,672**	173,365
		1,245,016	891,987
LIABILITIES			
Current liabilities			
Trade payables	23	**303,115**	254,759
Other payables and accruals	23	**101,121**	142,835
Amounts due to related parties	20	**38**	182,340
Current tax liabilities		**7,237**	16,588
		411,511	596,522
Non-current liability			
Provision for reinstatement costs	23	**12,070**	8,574
Net current assets		**833,505**	295,465
Total assets less current liabilities		**927,465**	371,015
Net assets		**915,395**	362,441

	Notes	2017 HK$'000	2016 HK$'000
EQUITY			
Owners of the Company			
Share capital	24	**8,000**	–
Reserves		**894,344**	355,556
		902,344	355,556
Non-controlling interest	33	**13,051**	6,885
Total equity		**915,395**	362,441

The consolidated financial statements on pages 59 to 107 were approved and authorised for issue by the Board of Directors on 21 March 2018 and are signed on its behalf by:

Mr. Lee Ching Yiu
DIRECTOR

Dr. Lo Wing Yan, William
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 *(Note a)*	Statutory reserve HK$'000 *(Note b)*	Capital reserve HK$'000 *(Note c)*	Translation reserve HK$'000	Share option reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2016	–	–	–	3,140	–	(15,810)	–	308,945	296,275	6,563	302,838
Profit for the year	–	–	–	–	–	–	–	89,200	89,200	786	89,986
Other comprehensive expense for the year	–	–	–	–	–	(29,919)	–	–	(29,919)	(464)	(30,383)
Total comprehensive (expense) income for the year	–	–	–	–	–	(29,919)	–	89,200	59,281	322	59,603
Transfer	–	–	–	211	–	–	–	(211)	–	–	–
At 31 December 2016	–	–	–	3,351	–	(45,729)	–	397,934	355,556	6,885	362,441
Profit for the year	–	–	–	–	–	–	–	59,352	59,352	6,014	65,366
Other comprehensive income for the year	–	–	–	–	–	33,420	–	–	33,420	152	33,572
Total comprehensive income for the year	–	–	–	–	–	33,420	–	59,352	92,772	6,166	98,938
Effect of the Reorganisation *(note 2)*	–	137,336	(137,336)	–	–	–	–	–	–	–	–
Issue of shares	1	–	–	–	–	–	–	–	1	–	1
Capitalisation issue	5,999	(5,999)	–	–	–	–	–	–	–	–	–
Issue of shares upon listing	2,000	308,000	–	–	–	–	–	–	310,000	–	310,000
Cost of issuing new shares	–	(15,413)	–	–	–	–	–	–	(15,413)	–	(15,413)
Recognition of share-based payment expense	–	–	–	–	–	–	3,703	–	3,703	–	3,703
Deemed contribution from a shareholder	–	–	–	–	205,725	–	–	–	205,725	–	205,725
Dividend paid *(note 14)*	–	(50,000)	–	–	–	–	–	–	(50,000)	–	(50,000)
Transfer	–	–	–	1,722	–	–	–	(1,722)	–	–	–
At 31 December 2017	8,000	373,924	(137,336)	5,073	205,725	(12,309)	3,703	455,564	902,344	13,051	915,395

Notes:

(a) The merger reserve represents the difference between the total equity of Kidsland Holdings (as defined in note 2) and Silverkids (as defined in note 2) attributable to Lovable International Holdings (as defined in note 1) and the aggregate share capital of Kidsland Holdings and Silverkids transferred to the Company pursuant to the Reorganisation (as defined in note 1) by issue of new shares of the Company to Lovable International Holdings.

(b) As stipulated by the relevant laws in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to maintain a statutory reserve fund. The minimum transfer to statutory reserve is 10% of profit after tax of the PRC subsidiaries according to the PRC subsidiaries' statutory financial statements. No appropriation is required if the balance of the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries. The statutory reserve can be used to make up losses or for conversion into capital.

(c) Capital reserve represents the waiver of amounts due to Lovable International Holdings, Lovable Products (Hong Kong) Limited ("Lovable Products (Hong Kong)"), Lovable Products Trading Limited ("Lovable Products"), Land Smart Development Limited ("Land Smart") and Mr. Lee (as defined in note 1) of HK$205,725,000 during the year ended 31 December 2017 which is accounted for as deemed contribution from a shareholder.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**93,497**	117,644
Adjustments for:		
Allowance for inventories	**2,281**	4,875
Allowance for doubtful debts (reversal of allowance for doubtful debts), net	**347**	(2,107)
Depreciation of property, plant and equipment	**32,846**	22,410
Interest income	**(446)**	(429)
Interest expense	**255**	–
Share-based payments	**3,703**	–
Net loss on disposal of property, plant and equipment	**11**	13
Net unrealised exchange gain	**(6,992)**	(362)
Operating cash flows before movements in working capital	**125,502**	142,044
Increase in inventories	**(76,062)**	(101,243)
Increase in trade receivables	**(41,448)**	(31,624)
Increase in other receivables, deposits and prepayments	**(53,939)**	(21,834)
Increase in trade payables	**32,743**	50,600
(Decrease) increase in other payables and accruals	**(51,110)**	34,765
Increase in amounts due to related parties	**–**	8,972
Cash (used in) generated from operations	**(64,314)**	81,680
Hong Kong Profits Tax paid	**(1,481)**	(1,875)
PRC Enterprise Income Tax ("EIT") paid	**(35,976)**	(18,644)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(101,771)**	61,161
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(35,609)**	(32,023)
Interest received	**446**	429
Repayment from a related party	**101**	–
NET CASH USED IN INVESTING ACTIVITIES	**(35,062)**	(31,594)
FINANCING ACTIVITIES		
Proceeds on issue of shares	**310,001**	–
New bank loans raised	**60,000**	–
Advances from related parties	**35,087**	212
Repayment of bank loans	**(60,000)**	–
Dividend paid	**(50,000)**	–
Issue costs paid	**(15,413)**	–
Repayments to related parties	**(11,719)**	(1,638)
Interest paid	**(255)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**267,701**	(1,426)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**130,868**	28,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**173,365**	156,377
Effect of foreign exchange rate changes	**7,439**	(11,153)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**311,672**	173,365

1. GENERAL

Kidsland International Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 26 April 2017.

The Company's ultimate holding company is Asian Glory Holdings Limited ("Asian Glory"), a company incorporated in the British Virgin Islands (the "BVI"). Up to 29 May 2017, the Company's immediate holding company was Lovable International Holdings Limited ("Lovable International Holdings"), a company incorporated in the BVI. Since the completion of a reorganisation on 29 May 2017 (the "Reorganisation"), the Company's immediate holding company is Asian Glory. The Company's ultimate controlling party is Mr. Lee Ching Yiu ("Mr. Lee"), who controls the Company mainly through Asian Glory. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 10 November 2017 (the "Listing").

The addresses of the registered office and the principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in trading and sale of toys and infant products. The principal activities of its subsidiaries are set out in note 32.

The functional currency of the Company is Renminbi ("RMB") while the consolidated financial statements are presented in Hong Kong Dollar ("HK$"), which the management of the Group considers that it is more beneficial for the users of the consolidated financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Prior to the Reorganisation, Kidsland Holdings Limited ("Kidsland Holdings") and Silverkids Inc. ("Silverkids"), the holding companies of the companies now comprising the Group, were controlled by Lovable International Holdings. Kidsland Holdings and Silverkids were owned by Lovable International Holdings as to 100% and 58%, respectively.

In the preparation for the Listing, the companies now comprising the Group underwent the Reorganisation. On 29 May 2017, the Reorganisation was executed to the extent that the Company had been interspersed between Lovable International Holdings, Kidsland Holdings and Silverkids. The Group, comprising the Company, Kidsland Holdings and Silverkids, resulting from the Reorganisation has always been under the common control of Lovable International Holdings throughout the year, regardless of the actual dates when Kidsland Holdings and Silverkids formally and legally became subsidiaries of the Company. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting as mentioned below.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows which include the financial performance and cash flows of the companies now comprising the Group for the year have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended 31 December 2017 and 2016, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

The consolidated statement of financial position at 31 December 2016 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date, taking into account the respective date of establishment/incorporation of the relevant entity, where appropriate.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised HKFRSs which are effective for the Group's accounting period beginning on 1 January 2017. For the purpose of preparing and presenting these consolidated financial statements, the Group has adopted all these new and revised HKFRSs consistently throughout both years.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share – based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate that following potential impact on initial application of HKFRS 9:

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon the application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not have material difference as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables, other receivables and rental deposits. Such further impairment recognised under expected credit loss model would impact the opening retained earnings and increase the deferred tax assets at 1 January 2018.

Except for the expected credit loss model that may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost, the directors of the Company do not expect any other material impact on the results and financial position of the Group based on an analysis of the Group's existing business model.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licencing application guidance.

Certain of the contracts with customer offer preferential rate of discounts which is considered as variable consideration under HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as those contracts are subject to variable consideration constraints.

In addition, the Group expects certain commission paid to the department stores, which is currently included in selling and distribution expense, will be netted against revenue.

The directors of the Company intend to apply the cumulative effect approach with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018, and more disclosures relating to revenue is required.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, currently operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$256,869,000, of which the whole amount has an original lease term for over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases at its present value upon the application of HKFRS 16. In addition, the Group currently considers refundable rental deposits paid of HK$47,126,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the rights to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

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.

Merger Accounting for Business Combination Involving Business Under Common Control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns and other similar allowance.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Sales of goods that result in award credits for customers, under the Group's customer loyalty scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Supplier Rebates

Incentive rebates provided by suppliers are recognised on an accrual basis based on the expected entitlement earned up to the end of the reporting period pursuant to each relevant supplier contract. Incentive rebates relating to goods purchased and sold are deducted from cost of goods sold, while incentive rebates relating to goods purchased but still held as inventories at the end of the reporting period are deducted from the carrying value of such goods so that the cost of inventories is recorded net of applicable rebates.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Company (i.e. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. For disposal of operation which functional currency is same as the Company's, the associated exchange differences accumulated in equity will not be reclassified to profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Property, Plant and Equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-Financial Assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

Retirement Benefit Costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term Employee Benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the service. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised in respect for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories represent merchandise stock of resale and are stated at the lower of cost and net realisable value. Costs of inventories are determined by the weighted average cost method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial Assets (Continued)

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including rental deposits, trade and other receivables, amount due from a related party and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial Liabilities and Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial Liabilities at amortised cost

Financial liabilities including trade payables, other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are 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 twelve months from the end of each reporting period.

Estimated Allowance for Inventories

Inventories are valued at the lower of cost and net realisable value. Judgment and estimates are required based on the condition and marketability of the inventories. Allowance for inventories is estimated based on an assessment of the net realisable value of inventories by the management. In determining the net realisable value of the inventories, the management considers the current market conditions, business strategy, marketing and promotion plans, historical sales records and subsequent sales of the inventories. If the net realisable value of the inventories of the Group are less than expected, additional allowance may be required.

As at 31 December 2017, the carrying amount of inventories was HK$617,690,000 (2016: HK$506,059,000) (net of allowance for inventories of HK$18,638,000 (2016: HK$25,413,000)).

Details of the Group's inventories are set out in note 18.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated Allowance for Trade Receivables

Management regularly reviews the recoverability of trade receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables was HK$191,584,000 (2016: HK$141,039,000) (net of allowance for doubtful debts of HK$2,457,000 (2016: HK$1,958,000)). Details of the Group's trade receivables are set out in note 19.

6. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, the chief operating decision maker (the "CODM"), that are used to make strategic decisions. The Group's operating segments are classified as (i) sales of toy products; and (ii) sales of infant products, which are based on the nature of the operations carried out by the Group. No operating segments have been aggregated in arriving at the reporting segments of the Group.

Segment Revenues and Results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2017

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
Revenue	1,729,063	133,113	1,862,176
Segment gross profit	793,804	72,680	866,484
Segment profit	785,641	74,680	860,321
Unallocated income			6,833
Unallocated expenses			(773,199)
Unallocated other gains and losses			(458)
Profit before tax			93,497

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment Revenues and Results (Continued)

For the year ended 31 December 2016

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
Revenue	1,475,463	162,911	1,638,374
Segment gross profit	724,669	93,121	817,790
Segment profit	728,437	94,741	823,178
Unallocated income			4,799
Unallocated expenses			(711,589)
Unallocated other gains and losses			1,256
Profit before tax			117,644

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit before tax earned by each segment without allocation of other gains and losses, interest income, government grants, sundry income and other unallocated expenses including certain selling and distribution expenses, general and administrative expenses, listing expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment Assets and Liabilities

As at 31 December 2017

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
Segment assets	**495,810**	**121,880**	**617,690**
Unallocated assets			**721,286**
Consolidated total assets			**1,338,976**
Segment liabilities	**279,268**	**23,847**	**303,115**
Unallocated liabilities			**120,466**
Consolidated total liabilities			**423,581**

As at 31 December 2016

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
Segment assets	404,895	101,164	506,059
Unallocated assets			461,478
Consolidated total assets			967,537
Segment liabilities	222,294	32,465	254,759
Unallocated liabilities			350,337
Consolidated total liabilities			605,096

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment Assets and Liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- only inventories are allocated to operating segments. Other assets used jointly by reportable segments are classified as unallocated assets, and

- only trade payables are allocated to operating segments. Other liabilities for which reportable segments are jointly liable are classified as unallocated liabilities.

Geographical Information

The Group's operations are located in the PRC and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers		Non-current assets*	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
PRC	**1,768,212**	1,606,098	**45,000**	42,683
Hong Kong	**93,964**	32,276	**14,274**	6,119
	1,862,176	1,638,374	**59,274**	48,802

* Non-current assets excluded rental deposits and deferred tax assets.

Information About Major Customers

There was no customer individually contributing over 10% of the total revenue during the respective years.

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income	**446**	429
Promotion income from brand owners	**19,106**	15,575
Government grants *(Note)*	**4,617**	2,684
Sundry income	**1,770**	1,686
	25,939	20,374

Note: The Group received government grants for its business development, which is unconditionally provided by the PRC local government.

8. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Net exchange loss	**(1,028)**	(915)
Net loss on disposal of property, plant and equipment	**(11)**	(13)
(Allowance for doubtful debts) reversal of allowance for doubtful debts, net	**(347)**	2,107
Reversal of provision for reinstatement costs	**1,228**	98
Others	**(300)**	(21)
	(458)	1,256

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank loans	**255**	–

10. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax charge		
Hong Kong Profits Tax	**707**	1,613
PRC withholding taxes	**3,146**	4,330
PRC EIT	**23,109**	19,924
	26,962	25,867
(Over) underprovision in prior years		
Hong Kong Profits Tax	**(343)**	873
Deferred tax *(Note 22)*		
Current year charge	**1,512**	918
	28,131	27,658

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both years.

The income tax rate of the PRC subsidiaries is 25% for both years.

10. INCOME TAX EXPENSE (Continued)

As approved by various competent tax bureaus, the PRC withholding taxes relating to intra-group distributorship development and maintenance service fee are subject to statutory tax rate of 25% on their respective deemed taxable income or the tax rate of 10% on taxable revenue in accordance with the prescribed tax calculation method pursuant to the applicable PRC tax regulations.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**93,497**	117,644
Tax at income tax rate of 25%	**23,374**	29,411
Tax effect of expenses not deductible for tax purposes	**10,838**	3,153
Tax effect of income not taxable for tax purposes	**(545)**	(224)
(Over) underprovision in prior years	**(343)**	873
Tax effect of tax losses not recognised	**1,194**	1,090
PRC withholding taxes	**3,146**	4,330
Utilisation of tax losses previously not recognised	**(690)**	(758)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(8,843)**	(11,135)
Others	**–**	918
Income tax expense	**28,131**	27,658

Note: The domestic tax rate applicable to the jurisdictions where the operations of the Group is substantially based is 25% for both years.

11. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year is arrived at after charging:		
Directors' remuneration *(Note 12)*	**5,899**	657
Other staff costs	**127,970**	162,172
Retirement benefit schemes contributions for other staff	**30,781**	36,723
Share-based payments for other staff	**2,650**	–
Total staff costs	**167,300**	199,552
Auditor's remuneration	**2,380**	116
Allowance for inventories, net (included in cost of sales) *(Note i)*	**2,281**	4,875
Depreciation of property, plant and equipment	**32,846**	22,410
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**19,543**	15,928
– rented premises of office (included in general and administrative expenses)	**13,170**	10,456
– retail shops (included in selling and distribution expenses) *(Note ii)*	**119,691**	95,279
– consignment counters (included in selling and distribution expenses)	**5,757**	5,147
	158,161	126,810

Notes:

(i) For the years ended 31 December 2017 and 2016, cost of inventories recognised as an expense represents cost of goods sold as shown in the consolidated statement of profit or loss and other comprehensive income.

(ii) The amounts include contingent rents of HK$27,743,000 (2016: HK$16,647,000).

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Mr. Lee, Dr. Lo Wing Yan, William ("Dr. Lo") and Ms. Zhong Mei were appointed as directors on 26 April 2017 and re-designated as executive directors on 24 May 2017. Mr. Lee has also been chief executive since 14 June 2017. Mr. Du Ping and Ms. Duan Lanchun were appointed as non-executive directors on 24 May 2017 and 31 August 2017, respectively. Mr. Cheng Yuk Wo, Dr. Lam Lee G. and Mr. Huang Lester Garson were appointed as independent non-executive directors on 20 October 2017. Details of the emoluments paid or payable to the directors and chief executive of the Company (including emoluments for services as directors or senior management of the group entities prior to becoming directors of the Company) during the year are as follows:

Directors and the Chief Executive

	Directors' fees HK$'000	Salaries and allowances HK$'000	Discretionary bonuses HK$'000 *(Note (b))*	Share-based payments HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
For the year ended 31 December 2017						
Executive directors:						
Mr. Lee	**14**	**–**	**–**	**312**	**–**	**326**
Dr. Lo	**14**	**2,400**	**–**	**312**	**138**	**2,864**
Ms. Zhong Mei	**14**	**1,853**	**166**	**312**	**99**	**2,444**
Non-executive directors:						
Mr. Du Ping	**14**	**–**	**–**	**117**	**–**	**131**
Ms. Duan Lanchun	**14**	**–**	**–**	**–**	**–**	**14**
Independent non-executive directors:						
Mr. Cheng Yuk Wo	**40**	**–**	**–**	**–**	**–**	**40**
Dr. Lam Lee G.	**40**	**–**	**–**	**–**	**–**	**40**
Mr. Huang Lester Garson	**40**	**–**	**–**	**–**	**–**	**40**
	190	**4,253**	**166**	**1,053**	**237**	**5,899**
For the year ended 31 December 2016						
Executive directors:						
Mr. Lee	–	–	–	–	–	–
Dr. Lo	–	–	–	–	–	–
Ms. Zhong Mei	–	510	86	–	61	657
	–	510	86	–	61	657

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Notes:

(a) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(b) Discretionary bonuses are determined by the remuneration committee of the Company from time to time by reference to the prevailing market conditions, the performance of the Company as well as the individual performance.

(c) There was no arrangement under which a director or the chief executive waived or agreed to waive any emoluments during both years.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2016: one) directors of the Company whose emoluments are included in the disclosures in note 12. The emoluments of the remaining three (2016: four) individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and allowances	**2,974**	1,814
Discretionary bonuses	**372**	309
Share-based payments	**351**	–
Retirement benefit schemes contributions	**322**	230
	4,019	2,353

Their emoluments were within the following bands:

	2017 Number of employees	2016 Number of employees
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**3**	–

During both years, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

14. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised and paid as distribution during the year	**50,000**	–

14. DIVIDENDS (Continued)

On 7 June 2017, a special dividend of HK$50,000,000 was declared and approved by the directors of the Company to Lovable International Holdings.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK2.23 cents (2016: nil) per ordinary share, in an aggregate amount of HK$17,840,000 (2016: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming general meeting.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017 HK$'000	2016 HK$'000
Earnings		
Earnings attributable to the owners of the Company for the purpose of calculation of basic earnings per share	**59,352**	89,200
Earnings attributable to the owners of the Company for the purpose of calculation of diluted earnings per share	**59,352**	N/A

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	**628,493**	600,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	**265**	N/A
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**628,758**	N/A

The number of ordinary shares for the purpose of calculation of basic and diluted earnings per share for the year ended 31 December 2017 and basic earnings per share for the year ended 31 December 2016 has taken into account the shares issued pursuant to the Reorganisation as set out in note 2 and the capitalisation issue as set out in note 24(e).

The computation of diluted earnings per share for the year ended 31 December 2017 does not assume the exercise of the Company's certain share options because the exercise price of those options was higher than the average market price for shares during the period from the grant date of those share options to 31 December 2017.

No diluted earnings per share was presented for the year ended 31 December 2016 as there was no potential ordinary share outstanding during that year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2016	68,233	19,335	435	88,003
Exchange differences	(5,571)	(1,342)	(27)	(6,940)
Additions	34,315	3,794	–	38,109
Disposals/write-off	(664)	(220)	–	(884)
At 31 December 2016	96,313	21,567	408	118,288
Exchange differences	7,261	1,580	29	8,870
Additions	36,237	4,099	–	40,336
Write-off	(1,228)	(219)	–	(1,447)
At 31 December 2017	**138,583**	**27,027**	**437**	**166,047**
ACCUMULATED DEPRECIATION				
At 1 January 2016	40,388	11,668	108	52,164
Exchange differences	(3,355)	(852)	(10)	(4,217)
Charge for the year	19,478	2,827	105	22,410
Disposals/write-off	(664)	(207)	–	(871)
At 31 December 2016	55,847	13,436	203	69,486
Exchange differences	4,821	1,038	18	5,877
Charge for the year	28,053	4,689	104	32,846
Write-off	(1,228)	(208)	–	(1,436)
At 31 December 2017	**87,493**	**18,955**	**325**	**106,773**
CARRYING VALUES				
At 31 December 2017	**51,090**	**8,072**	**112**	**59,274**
At 31 December 2016	40,466	8,131	205	48,802

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the shorter of the term of the lease or 5 years
Furniture and equipment	5-10 years
Motor vehicles	3 years

17. RENTAL DEPOSITS

The balance represents rental deposits paid by the Group in connection with its rented premises, retail shops and consignment counters. The relevant leases will expire after one year from the end of the respective years, therefore, the balances are classified as non-current.

18. INVENTORIES

	2017 HK$'000	2016 HK$'000
Merchandise stock for resale	617,690	506,059

19. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Trade receivables	194,041	142,997
Less: Allowance for doubtful debts	(2,457)	(1,958)
	191,584	141,039
Other receivables, deposits and prepayments		
– Deposits	34,853	28,719
– Deferred listing expenses	–	2,842
– Prepayments for purchase of merchandise stock for resale and expenses	22,086	20,265
– Rebate receivables from suppliers	39,913	–
– Promotion income receivable from brand owners	8,536	2,614
– Other taxes recoverable	13,077	14,703
– Others	5,605	2,280
	124,070	71,423

The Group's retail sales are made through its self-operated retail network comprising stand-alone retail shops and consignment counters in department stores. The Group also sells directly to retailers in the PRC. Sales at self-operated retail shops in the PRC are transacted either by cash, credit cards, Alipay or WeChat Pay in which the settlement period is normally within 2 days from transaction date. For sales made at consignment counters, the department stores make collection from the ultimate customers and then pay the balance after deducting the consignment expenses to the Group. The credit period granted to department stores ranges from 30 days to 180 days.

The Group's distribution business is operated through the sales to online key accounts, offline distributors and hypermarket and supermarket chains in the PRC. The Group's trading terms with its distributors and hypermarket and supermarket chains are mainly on credit, while in general for the offline distributors are in cash. The credit period granted to a few offline distributors, online key accounts and hypermarket and supermarket chains ranges from 15 days to 60 days.

19. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the revenue recognition at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
Within 30 days	151,141	108,759
31 to 60 days	18,027	16,673
61 to 90 days	9,939	8,066
91 to 180 days	8,588	5,473
181 to 365 days	3,889	988
Over 365 days	–	1,080
	191,584	141,039

For sales to retailers, distribution customers and hypermarkets and supermarket chains, before accepting any new customer, the Group will internally assess the potential customer's credit quality and define its credit limits based on results from investigation of historical credit records of these customers.

The management of the Group closely monitors the credit quality of trade receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no history of default.

Included in the Group's trade receivables balance are debtors with aggregate carrying amounts of HK$55,033,000 (2016: HK$38,050,000), which are past due at end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. In the opinion of the directors of the Company, the trade receivables which are past due but not impaired are considered to be collectable based on historical experience and subsequent settlement.

The following is an aged analysis of trade receivables based on the revenue recognition which are past due but not impaired at the end of the reporting period.

	2017 HK$'000	2016 HK$'000
Within 30 days	17,982	9,213
31 to 60 days	15,188	13,902
61 to 90 days	9,764	7,448
91 to 180 days	8,210	5,419
181 to 365 days	3,889	988
Over 365 days	–	1,080
	55,033	38,050

19. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Movements in the Allowance for Doubtful Debts

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**1,958**	4,246
Impairment loss recognised	**347**	656
Reversal of impairment loss recognised	**–**	(2,763)
Exchange adjustments	**152**	(181)
Balance at end of the year	**2,457**	1,958

20. AMOUNTS DUE FROM (TO) RELATED PARTIES

Details of amounts due from (to) related parties are set out below:

	2017 HK$'000	2016 HK$'000
Amount due from a related company *(Note a)*	**–**	101
Amount due to Mr. Lee *(Note b)*	**–**	2,073
Amount due to immediate holding company *(Note b)*	**–**	13,214
Amounts due to related companies *(Note a)*	**38**	156,327
Amount due to non-controlling interest *(Note b)*	**–**	10,726
Amounts due to related parties	**38**	182,340

Notes:

(a)

Amount due from a related company	Nature of balance	As at 31 Decemebr 2017 HK$'000	As at 31 Decemebr 2016 HK$'000	As at 1 January 2016 HK$'000
東莞利法寶玩具製品有限公司	Non-trade	–	101	107

The related company is controlled by Mr. Lee. The amount due from a related company was unsecured, interest-free and repayable on demand. The maximum amount outstanding for the year ended 31 December 2017 was HK$101,000 (2016: HK$107,000).

Amounts due to related companies	Nature of balance	2017 HK$'000	2016 HK$'000
Land Smart	Non-trade	–	6,726
Lovable Products	Non-trade	**38**	56,631
Lovable Products (Hong Kong)	Trade	–	92,970
		38	156,327

The related companies are controlled by Mr. Lee. The amounts are unsecured, interest-free and repayable on demand, except for the amount of HK$92,970,000 which had a credit period of 90 days as at 31 December 2016. The balance was aged over 1 year.

(b) The amounts due to Mr. Lee, the immediate holding company and non-controlling interest were non-trade, unsecured, interest-free and repayable on demand.

21. BANK BALANCES AND CASH

As at 31 December 2017, the Group's bank balances carry interest at prevailing market rates ranging from 0.001% to 0.5% per annum (2016: 0.001% to 0.5% per annum).

22. DEFERRED TAX ASSETS

The following is the major deferred tax assets (liabilities) recognised and movements thereon during both years:

	Property, plant and equipment HK$'000	Unrealised profit on inventory HK$'000	Provision for doubtful debts HK$'000	Allowance for inventories HK$'000	Provision for loyalty scheme HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2016	–	3,573	1,062	7,612	–	–	12,247
(Charge) credit to profit or loss for the year	(218)	417	(527)	(808)	–	218	(918)
Exchange adjustments	–	(245)	(45)	(450)	–	–	(740)
At 31 December 2016	(218)	3,745	490	6,354	–	218	10,589
Credit (charge) to profit or loss for the year	290	131	87	(2,067)	265	(218)	(1,512)
Exchange adjustments	–	269	38	373	10	–	690
At 31 December 2017	**72**	**4,145**	**615**	**4,660**	**275**	**–**	**9,767**

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$343,000,000 (2016: HK$274,000,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2017, the Group had unused tax losses of HK$14,105,000 (2016: HK$14,219,000) available to offset against future profits. No (2016: HK$1,321,000) deferred tax assets have been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining HK$14,105,000 (2016: HK$12,898,000) due to the unpredictability of future profit streams. At 31 December 2017, none (2016: HK$2,880,000) of the unrecognised tax losses may be carried forward indefinitely, except for the below unrecognised tax losses will expire in the following years.

22. DEFERRED TAXATION (Continued)

	2017 HK$'000	2016 HK$'000
2017	–	941
2018	**1,843**	1,843
2019	**1,185**	1,185
2020	**3,682**	3,682
2021	**2,367**	2,367
2022	**5,028**	–
	14,105	10,018

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Trade payables	**303,115**	254,759
Other payables and accruals		
– Deposits received from customers	**22,741**	36,127
– Accrued expenses	**28,932**	39,042
– Provision for retirement benefit costs	**35,521**	43,443
– Provision for reinstatement costs	**19,782**	15,142
– Other taxes payable	**3,103**	16,321
– Others	**3,112**	1,334
	113,191	151,409
Less: Provision for reinstatement costs presented as non-current liability	**(12,070)**	(8,574)
Other payables and accruals presented as current liabilities	**101,121**	142,835

The credit periods on trade payables offered by suppliers are within 60 days to 90 days.

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

The aged analysis of the Group's trade payables, based on invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 30 days	**192,790**	167,980
31 to 60 days	**84,199**	77,601
61 to 90 days	**23,606**	8,999
Over 90 days	**2,520**	179
	303,115	254,759

Movements in the Provision for Reinstatement Costs

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**15,142**	14,036
Provision for the year	**4,727**	2,186
Reversal for the year	**(1,228)**	(98)
Exchange adjustments	**1,141**	(982)
Balance at end of the year	**19,782**	15,142

24. SHARE CAPITAL

	Notes	Number of shares	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 26 April 2017 (date of incorporation)	*(a)*	38,000,000	380
Increase during the year	*(d)*	49,962,000,000	499,620
At 31 December 2017		**50,000,000,000**	**500,000**
Issued and fully paid:			
At 26 April 2017 (date of incorporation)	*(a)*	1	–
Issue of shares at par for the Reorganisation	*(b)*	2	–
Issue of shares	*(c)*	100,000	1
Capitalisation issue	*(e)*	599,899,997	5,999
Issue of shares upon listing	*(f)*	200,000,000	2,000
At 31 December 2017		**800,000,000**	**8,000**

Notes:

(a) On 26 April 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each. One share of HK$0.01 was issued and allotted to the initial subscriber, which was subsequently transferred to Lovable International Holdings.

(b) On 29 May 2017, the Company acquired 58 shares and 1 share, representing 58% and 100% of the issued share capital of Silverkids and Kidsland Holdings, respectively, from Lovable International Holdings. The consideration was satisfied by allotting and issuing one share and one share of the Company, credited as fully paid, respectively.

(c) On 9 June 2017, 100,000 shares of the Company were issued to shareholders of Lovable International Holdings at HK$1,000 for the Reorganisation.

(d) On 20 October 2017, the shareholders of the Company passed a written resolution pursuant to which the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 divided into 50,000,000,000 ordinary shares with a par value of HK$0.01 each.

(e) On 20 October 2017, the directors of the Company were authorised to capitalise an amount of HK$5,999,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 599,899,997 shares.

(f) On 10 November 2017, the shares of the Company were listed on the Stock Exchange. 200,000,000 ordinary shares at an offer price of HK$1.55 were issued through global offering.

(g) The new shares issued during the year rank pari passu with the existing shares in all respects.

25. SHARE OPTION SCHEMES

(i) The Pre-IPO Share Option Scheme

On 20 October 2017, a share option scheme was adopted by the shareholders of the Company (the "Pre-IPO Share Option Scheme"). The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the scheme have or may have made to the Group.

The eligible participants include any full-time, key employees, consultants or directors of the Company or any of its subsidiaries who, in the opinion of the directors of the Company, have contributed to the Company and/or any of its subsidiaries.

On the same date, the Company has authorised to grant to 78 eligible participants to subscribe for an aggregate of 47,500,000 shares under the Pre-IPO Share Option Scheme.

The exercise price of a share in respect of any particular share option offered under the Pre-IPO Share Option Scheme shall be HK$0.8.

The share options granted to each grantee under the Pre-IPO Share Option Scheme shall be vested in three tranches representing 40%, 30% and 30% of the total number of options granted, respectively, commencing on 25 October 2018, the first anniversary of the grant date and on each of the second and third anniversary of the grant date. No consideration is payable on the grant of an option. The grantees to whom a share option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the share option any time after the share option has been vested but in any event on or before the expiry of ten years from the grant date.

The following tables disclose details of movements of share options granted during the year under the Pre-IPO Share Option Scheme:

Options	Vesting period	Granted on 25 October 2017	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2017
Directors					
Tranche 1	25 October 2017 to 24 October 2018	5,400,000	–	–	5,400,000
Tranche 2	25 October 2017 to 24 October 2019	4,050,000	–	–	4,050,000
Tranche 3	25 October 2017 to 24 October 2020	4,050,000	–	–	4,050,000
		13,500,000	–	–	13,500,000
Employees					
Tranche 1	25 October 2017 to 24 October 2018	13,600,000	–	–	13,600,000
Tranche 2	25 October 2017 to 24 October 2019	10,200,000	–	–	10,200,000
Tranche 3	25 October 2017 to 24 October 2020	10,200,000	–	–	10,200,000
		34,000,000	–	–	34,000,000
		47,500,000	–	–	47,500,000

25. SHARE OPTION SCHEMES (Continued)

(i) The Pre-IPO Share Option Scheme (Continued)

Details of the share options granted under the Pre-IPO Share Option Scheme are as follows:

	Date of grant	Number of share options granted	Exercise period	Fair value per share option HK$
Tranche 1	25 October 2017	19,000,000	25 October 2018 to 24 October 2027	0.61
Tranche 2	25 October 2017	14,250,000	25 October 2019 to 24 October 2027	0.64
Tranche 3	25 October 2017	14,250,000	25 October 2020 to 24 October 2027	0.66

The fair value of the share options at the grant date were calculated using the Binomial Model with different assumed holding period prior to the optional expected exercise of the options.

The inputs into the model are as follows:

Grant date	25 October 2017
Number of share options	47,500,000
Share price	HK$1.15
Risk-free rate	1.88%
Expected volatility	45.96%
Time-to-maturity	24 October 2027

The risk-free rate is based on Hong Kong Dollar Sovereign Curve obtained from Bloomberg.

Expected volatility was determined by using five comparable companies' historical volatility quoted by Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, non-marketability, exercise restrictions and behavioral considerations.

The Group recognised a total expense of HK$3,703,000 for the year ended 31 December 2017 (2016: nil) in relation to the Pre-IPO share options granted by the Company.

25. SHARE OPTION SCHEMES (Continued)

(ii) The Post-IPO Share Option Scheme

On 20 October 2017, a share option scheme was adopted by the shareholders of the Company (the "Post-IPO Share Option Scheme").

The principal terms of the Post-IPO Share Option Scheme are summarised in the section headed "Statutory and General Information – D. Other information, Post-IPO Share Option Scheme" in Appendix IV to the Company's prospectus dated 31 October 2017.

No share option under the Post-IPO Share Option Scheme has been granted since its adoption.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of debt, which includes amounts due to related parties disclosed in note 20, net of cash and cash equivalents, and equity attributable to owners of the Group, comprising issued share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends or issue of new shares as well as the issue of new debts or the redemption of existing debts.

27. FINANCIAL INSTRUMENTS

(a) Categories of Financial Instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**577,169**	364,277
Financial liabilities		
Amortised cost	**306,265**	438,433

27. FINANCIAL INSTRUMENTS (Continued)

(b) Financial Risk Management Objectives and Policies

The Group's major financial instruments include rental deposits, trade receivables, other receivables, amount due from a related party, bank balances and cash, trade payables, other payables and amounts due to related parties. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market Risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

No sensitivity analysis is presented since the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is limited due to their short maturities.

(ii) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy in foreign currency risk. However, management monitors foreign currency risk exposure and will consider hedging significant foreign currency risk should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
European dollar ("EUR")	**962**	11,690	**1,139**	11,610
Japanese Yen ("YEN")	**34**	62	**–**	–
RMB	**464**	24	**–**	10,727

Note: The above amounts exclude United States Dollar ("USD") amounts where the functional currency of the relevant group entities is HK$ because HK$ is pegged to the USD, and the exchange exposure is not significant.

27. FINANCIAL INSTRUMENTS (Continued)

(b) Financial Risk Management Objectives and Policies (Continued)

Market Risk (Continued)

(ii) Foreign currency risk (Continued)

Sensitivity analysis

Subsidiaries of the Company are with most of the transactions denominated in EUR, YEN or RMB and the Group is mainly exposed to the foreign exchange risk arising from these currencies when they are different from the functional currencies of the corresponding group entities.

The sensitivity analysis below details the Group's sensitivity to a 5% increase and decrease in EUR, YEN or RMB against the functional currencies of the corresponding group entities. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes the Group's monetary assets and monetary liabilities denominated in foreign currency and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number indicates an increase (a decrease) in profit for the year when EUR, YEN or RMB strengthen 5% against the functional currencies of the corresponding group entities. For a 5% weakening of EUR, YEN or RMB, there would be an equal but opposite impact on the profit for the year.

	2017 **HK$'000**	2016 HK$'000
EUR	**(7)**	3
YEN	**1**	2
RMB	**19**	(401)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

27. FINANCIAL INSTRUMENTS (Continued)

(b) Financial Risk Management Objectives and Policies (Continued)

Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of material individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	2017	2016
Amount due from the largest debtor as a percentage to total trade receivables	**11%**	8%
Total amount due from the five largest debtors as a percentage to total trade receivables	**27%**	26%

The directors of the Company consider that the Group's credit risk in relation to sales made at consignment counters is limited as the Group only operates consignment counters in leading and reputable department stores. The Group has also concentration of credit risk on a supplier in relation to its rebate receivables and promotion income receivable, the directors of the Company consider that the Group's credit risk of these other receivables is limited as the receivables are from reputable supplier. For other suppliers and other customers, the management closely monitors settlement status and regularly updates their credit profile to ensure that the Group's credit risk is properly managed.

The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties. The credit risk on liquid funds and banks deposits is limited because the counterparties are banks with good reputation.

Liquidity Risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group believes that the Group will have sufficient working capital for its future operational requirement.

The contractual maturity for financial liabilities of the Group are all within 3 months from the end of the reporting period.

27. FINANCIAL INSTRUMENTS (Continued)

(c) Fair Value Measurement of Financial Instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

28. OPERATING LEASES

During the year, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leased warehouses, offices, retail shops and consignment counters as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**133,974**	99,644
In the second to fifth year, inclusive	**122,841**	98,051
Over five years	**54**	–
	256,869	197,695

Leases are negotiated with monthly rental for a range of one to five and a half years (2016: one to five years).

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops' and consignment counters' turnover pursuant to the terms and conditions as set out in respective rental agreements.

29. CAPITAL COMMITMENTS

	2017 **HK$'000**	2016 HK$'000
Contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**159**	609

30. RETIREMENT BENEFITS PLANS

The Group operates the MPF Scheme for all qualifying employees in Hong Kong. The assets of the above scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes at the lower of HK$1,500 or 5% of the relevant payroll costs to the MPF Scheme.

The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

During the years ended 31 December 2017 and 2016, the Group failed to promptly make full contributions to the social insurance plans and the housing provident fund for their employees employed by the PRC subsidiaries. Pursuant to the PRC regulation 《中華人民共和國社會保險法》, the PRC subsidiaries may be ordered to make up for the shortfall in contribution within a specified time period and be subject to a daily fine amounting to 0.05% of the outstanding contributions from the date on which payment is overdue. If the outstanding contribution is not made within the specified time period, the Group may be imposed a fine ranging from one to three times of the amount of shortfall in contribution. Besides, the Group may also be subject to a fixed fine ranging from RMB10,000 to RMB50,000 in addition to the outstanding housing provident fund contributions underpaid if the employer failed to rectify such non-compliance within a specified period of time.

During the year ended 31 December 2017, the Group has commenced to make full contribution to the social insurance fund and the housing provident fund for most of its employees. As for the sales staff working at retail points, the Group has outsourced to a human resources company which it shall be responsible for making contribution to, and bear the costs of, the social insurance fund and housing provident fund for such sales staff.

At 31 December 2017, the Group had made aggregate provisions of HK$35,070,000 (2016: HK$41,000,000) in respect of the estimated shortfall in social insurance plans and housing provident fund contributions.

The directors of the Company have, taking into account the facts that (i) full provision of shortfalls had been made; and (ii) advice had been sought from the Group's PRC legal adviser that the chance of the Group being penalised by the local social insurance and housing fund authorities in cities where the PRC subsidiaries and branches are located is remote; and (iii) the daily fine amounting of 0.05% of the outstanding contribution is not material to the Group, considered that it is not probable that the Group will be penalised and the daily fine is not material to the Group and therefore no provision for fines or penalties has been made, and that the provision of shortfall made as at the end of each reporting period and during the year is adequate.

The total cost recognised in profit or loss of HK$31,018,000 (2016: HK$36,784,000) represents contributions paid or payable to the above schemes by the Group for the year ended 31 December 2017. As at 31 December 2017 and 2016, there were no forfeited contributions which arose upon employees leaving the schemes prior to their interests in the Group's contribution becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

31. RELATED PARTY DISCLOSURES

(a) Transactions

Name of related party	Nature of transactions	2017 HK$'000	2016 HK$'000
Captcha Media Limited *(Note i)*	Marketing service fee	**2,615**	890
Land Smart *(Note ii)*	Rental expenses	**1,760**	1,167
Politor Limited *(Note ii)*	Rental expenses	**330**	–

Notes:

(i) The related company is controlled by Dr. Lo.

(ii) The related companies are controlled by Mr. Lee.

(b) Balances

Details of balances with related parties are set out in note 20.

(c) Compensation of Key Management Personnel

The directors, chief executive and the employees included in the five highest paid individuals are identified as key management members of the Group and details of their compensation during the year are set out in notes 12 and 13.

(d) Financial Guarantees

As at 31 December 2016, a personal guarantee was given by a director of the Company in respect of banking facilities granted to the Group amounted to HK$23,000,000. The personal guarantee was fully released during the year ended 31 December 2017.

32. PARTICULARS OF SUBSIDIARIES

As at 31 December 2017, the Company has direct and indirect shareholdings/equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid capital/ registered and paid in capital	Shareholding/ equity interest attributable to the Group 2017 %	Shareholding/ equity interest attributable to the Group 2016 %	Principal activities
Directly held:					
Kidsland Holdings	The BVI	USD1	**100**	100	Investment holding
Silverkids	The BVI	USD100	**58**	58	Investment holding

32. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid capital/ registered and paid in capital	Shareholding/ equity interest attributable to the Group 2017 %	Shareholding/ equity interest attributable to the Group 2016 %	Principal activities
Indirectly held:					
Kidsland Distribution Limited	Hong Kong	HK$1,000	**100**	100	Investment holding
Kidsland HK Limited	Hong Kong	HK$1,000	**100**	100	Trading and sale of toys and infant products
Kidsland LCS Limited	Hong Kong	HK$8,000,000	**100**	100	Retail of toys
北京匯智樂思商貿有限公司	The PRC	RMB3,800,000	**100**	100	Investment holding
廣州智樂商業有限公司	The PRC	RMB500,000	**100**	100	Trading and sale of toys and infant products
北京孩思樂商業有限公司	The PRC	RMB3,000,000	**100**	100	Trading and sale of toys and infant products
北京凱奇樂商業有限公司	The PRC	RMB2,000,000	**100**	100	Trading and sale of toys and infant products
廣州孩思樂商貿有限公司	The PRC	RMB500,000	**100**	100	Trading and sale of toys and infant products
上海孩思樂商貿有限公司	The PRC	RMB500,000	**100**	100	Trading and sale of toys and infant products
成都孩思樂商貿有限公司	The PRC	RMB500,000	**100**	100	Trading and sale of toys and infant products
深圳孩思樂商貿有限公司	The PRC	RMB500,000	**100**	100	Trading and sale of toys and infant products
Prince Asia Limited	Hong Kong	HK$1	**58**	58	Investment holding
銀樂寶（天津）商貿有限公司	The PRC	RMB17,000,000	**58**	58	Trading and sale of toys products

None of the subsidiaries of the Company had any debt securities outstanding at the end of or any time during both years.

33. NON-CONTROLLING INTEREST

The table below shows the financial information of Silverkids, a non-wholly owned subsidiary of the Company, and its subsidiaries:

	2017 HK$'000	2016 HK$'000
Current assets	**88,993**	73,639
Non-current assets	**2**	10
Current liabilities	**57,921**	57,257
Equity attributable to owners of the Company	**18,023**	9,507
Non-controlling interest of the Group	**13,051**	6,885
Revenue	**132,033**	123,578
Profit for the year	**14,318**	1,872
Other comprehensive income (expense) for the year	**362**	(1,105)
	14,680	767
Profit attributable to owners of the Company	**8,304**	1,086
Profit attributable to non-controlling interest	**6,014**	786
Dividends paid to non-controlling interest	**–**	–
Net cash inflow (outflow) from operating activities	**8,926**	(3,170)
Net cash outflow from investing activities	**–**	–
Net cash outflow from financing activities	**(10,781)**	(603)
Net cash outflow	**(1,855)**	(3,773)

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued issue costs HK$'000	Interest payable HK$'000	Amounts due to related parties HK$'000	Dividend payable HK$'000	Total HK$'000
At 1 January 2017	–	–	89,370	–	89,370
Deemed contribution from a shareholder	–	–	(112,755)	–	(112,755)
Dividend declared	–	–	–	50,000	50,000
Interest expense	–	255	–	–	255
Issue costs accrued	15,413	–	–	–	15,413
Financing cash flows	(15,413)	(255)	23,368	(50,000)	(42,300)
Exchange adjustments	–	–	55	–	55
At 31 December 2017	**–**	**–**	**38**	**–**	**38**

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company is as follows:

	2017 HK$'000
NON-CURRENT ASSET	
Investment in subsidiaries	**137,336**
CURRENT ASSETS	
Deposit and prepayments	**165**
Amounts due from subsidiaries	**87,657**
Bank balances	**194,702**
	282,524
CURRENT LIABILITY	
Other payables and accrued expenses	**2,182**
NET CURRENT ASSETS	**280,342**
NET ASSETS	**417,678**
CAPITAL AND RESERVES	
Share capital	**8,000**
Reserves *(Note)*	**409,678**
	417,678

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
At 26 April 2017 (date of incorporation)	–	–	–
Profit and total comprehensive income for the year	–	35,754	35,754
Effect of the Reorganisation	137,336	–	137,336
Capitalisation issue	(5,999)	–	(5,999)
Issue of shares	308,000	–	308,000
Cost of issuing new shares	(15,413)	–	(15,413)
Dividend paid	(50,000)	–	(50,000)
At 31 December 2017	**373,924**	**35,754**	**409,678**

FOUR YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last three financial years, as extracted from the Company's prospectus dated 31 October 2017, is set out below:

RESULTS

	Year ended 31 December			
	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**1,862,176**	1,638,374	1,561,291	1,324,649
PROFIT BEFORE TAX	**93,497**	117,644	133,490	127,454
INCOME TAX EXPENSE	**(28,131)**	(27,658)	(24,348)	(26,807)
PROFIT FOR THE YEAR	**65,366**	89,986	109,142	100,647
PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
OWNERS OF THE COMPANY	**59,352**	89,200	106,559	96,238
NON-CONTROLLING INTEREST	**6,014**	786	2,583	4,409
	65,366	89,986	109,142	100,647

ASSETS AND LIABILITIES

	At 31 December			
	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,338,976**	967,537	834,323	757,722
TOTAL LIABILITIES	**(423,581)**	(605,096)	(531,485)	(541,477)
NET ASSETS	**915,395**	362,441	302,838	216,245
NET ASSETS ATTRIBUTABLE TO				
OWNERS OF THE COMPANY	**902,344**	355,556	296,275	211,910
NON-CONTROLLING INTEREST	**13,051**	6,885	6,563	4,335
	915,395	362,441	302,838	216,245

Note: No financial information of the Group for the year ended 31 December 2013 has been published.