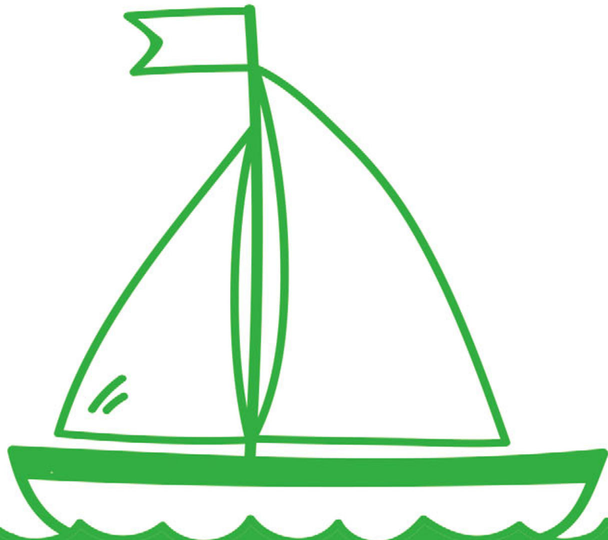
kidsland 凱知樂

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 2018



CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lee Ching Yiu *(Chairman and Chief Executive Officer)*
Mr. Hung Shing Ming (appointed on 1 January 2019)
Dr. Lo Wing Yan William (resigned on 31 December 2018)
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. Lee Ching Yiu
(appointed on 1 January 2019)
Mr. Cheng Yuk Wo
Dr. Lo Wing Yan William
(resigned on 31 December 2018)

NOMINATION COMMITTEE

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

COMPANY SECRETARY/JOINT COMPANY SECRETARIES

Mr. Chan Chun Yeung Darren (appointed as the Company Secretary on 4 February 2019)
Ms. Wong Yuk Ki (resigned as a Joint Company Secretary on 4 February 2019)
Ms. Li Shan Mui (resigned as a Joint Company Secretary on 4 February 2019)

AUTHORISED REPRESENTATIVES

Mr. Lee Ching Yiu (appointed on 27 December 2018)
Dr. Lo Wing Yan William
(ceased to act on 27 December 2018)
Mr. Chan Chun Yeung Darren
(appointed on 4 February 2019)
Ms. Wong Yuk Ki
(ceased to act on 4 February 2019)

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
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Hong Kong

REGISTERED OFFICE

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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

PRINCIPAL BANKERS

Hong Kong
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

COMPLIANCE ADVISER

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Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
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Hong Kong

COMPANY'S WEBSITE

www.kidslandholdings.com
(information on this website does not form part of this report)

STOCK CODE

2122

CHAIRMAN'S STATEMENT

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

Dear **Shareholders**,

In 2018, we suffered a full-year accounting loss of approximately HK$100.1 million, the first in our corporate history. This was caused by the confluence of a multitude of factors.

The weakened PRC economy, escalating global trade tensions set a weak macro backdrop. Global toy markets only grew by approximately 2% in 2018 while the PRC toy market saw a flat year. In spite of this backdrop, we continued to grow our top-line, increasing it by 5.0% and toy segmental revenue by 7.3% in 2018. Our distribution network remained robust as revenue from retail shops rose by 25.1%. Direct e-commerce sales (online shops and online key accounts combined) grew 25.3% year-on-year, contributing to 9.5% of total sales in 2018, as compared to 7.9% in 2017.

However, we must not be made complacent by the relatively healthy top-line growth. The weakening economic fundamentals in the PRC make our customers more price-sensitive. Some of our peers, comprising both online and offline sellers, adopted aggressive pricing strategies, leading to significant pressure on selling prices and compression in gross margin by three percentage points in 2018. We have been optimising our product and brand mix to enhance gross profit margin on a portfolio basis. More marketing efforts, particularly the content-based ones such as short videos, those involving Key Opinion Leaders (KOLs), leverage the latest trends in the PRC and have been adopted to improve price and margin. We have already witnessed results: for the six months ended 30 June 2018, our gross margin was 42.8%, and for the year ended 31 December 2018, it had improved to 43.5%.

Total selling, distribution, general and administrative expenses amounted to HK$956.9 million in 2018, representing a 22.9% increase (from approximately HK$778.3 million in 2017). This increase resulted mainly from an increase of staff related costs (including social benefits) by HK$97.9 million and an increase of rental and concessionary expenses by HK$44.4 million. To manage these expenses, we ought to continue to optimise our network of retail shops and consignment counters. We also strive to run this network and our vast sales force more efficiently and effectively. During 2018, 28 retail shops and 72 consignment counters were closed. Meanwhile, we selectively added, right-sized, and relocated our retail shops and counters. In addition to our Kidsland and Babyland stores and counters, we added eight LEGO Certified Stores ("LCSs") in the PRC and Hong Kong in 2018. Notably, some of our LCSs are among the most sales-productive LCSs in the world. Overall, we maintained a stable retail network at a similar scale but strived to improve its composition and profitability. Finally, the PRC government recently announced policies to reduce taxes (e.g. VAT) and fees in the near future, which we believe would help our cost management further.

Non-cash selling, distribution, and general and administrative expenses in 2018 also depressed profitability. For example, we recorded HK$28.8 million of non-cash share-based payment in 2018 and only HK$3.7 million in 2017. The considerably weakened RMB led to a HK$15.1 million net exchange loss, a far cry from the HK$1.0 million recorded in 2017. Adjusting for these two items, our adjusted EBITDA (earnings before interest income, finance costs, income tax, depreciation, amortisation, adjusted for share-based compensation and net exchange loss) for the year ended 31 December 2018 was negative HK$4.5 million; for the six months ended 30 June 2018 was negative HK$15.3 million.

Apart from the aforementioned short-term measures that we are deploying, the longer-term future is encouraging to us. Kidsland has been a leader in the ever-competitive toy marketplace in the PRC for many years. We have a strong backbone comprising our team, industry-leading distribution network (online and offline), and distinct corporate culture. We have steadfast determination to continue to evolve and grow from strength to strength.

There are a few things that we need to excel at.

First and foremost, we need to become a consumer-centric business. This generation's young parents differing from the past generations' less affluent parents, are asking for more and requiring for their children products that stand out – products that are fun, trendy, collectible, exclusive, educational, and even beyond. We ought to build a unique and strong brand that appeals to these needs. To achieve this, we have embarked on a few projects to refresh our strategy, reimagine our brands, and revitalise our shops to faithfully and humbly embrace the future. All this goes hand-in-hand with an ongoing focus on ensuring that our shops and counters provide great customer experience and strong engagement, integrating online and offline seamlessly.

Under this consumer-centric approach, product diversity has to be broadened to satisfy a more fragmented market due to more individualised styles and personalities. We are working to introduce meticulously selected and world-leading brands and products – particularly innovative, trendy and collectible toys, and lifestyle baby products, to complement and strengthen our product suite.

As part of the above-mentioned strategy, we plan to open the FAO Schwarz Beijing Flagship before 30 June 2019. FAO Schwarz, established in 1862 in New York City, is an iconic and high-end toy retail franchise offering highly curated products. It is well known for offering experiential and theatrical shopping experience to customers all around the world. Kidsland is the exclusive operating partner of FAO Schwarz in the PRC. The size of our Beijing flagship, when it opens, will add approximately 7% to the aggregate operating area of our retail shop network. With high-end positioning and unique shopping experience on offer, we anticipate its productivity to be higher than that of our other retail shops. We have plans to open more FAO Schwarz shops across the PRC over the next few years.

In addition to our efforts in becoming more customer-centric, we cannot emphasise enough about the paramount importance of technology and the Group's online presence. We have one of the largest and arguably best-in-class e-commerce operations. We have a team of over 60 people. During 2018, we opened 11 new online shops, as at 31 December 2018, we operate four Kidsland flagship stores across major e-commerce platforms in the PRC and 18 flagship online stores operated on behalf of many of the brands that we represent in the PRC. We operate the highest number of flagship stores on Tmall in the imported toys category. Ranking amongst the top in this category, our collective revenue from all online stores on Tmall amounted to HK$83.9 million in 2018. We are investing to deepen our e-commerce leadership and expect growth to take off in the near future.

We are also accelerating to digitise our operations and enhance productivity for the sales team and the organisation as a whole. The resulting technology and Big Data do not only aid decision-making but also directly improve sales productivity by identifying, communicating, and transacting with our customers. Learning from the experience of many successful start-up technology companies, we aim to stay agile and nimble in our technological development path. We will invest and deploy resources in a smart way and not overextend. We focus on taking small steps and delivering tangible results.

Last but not least, in the face of multifold challenges, we ought to be particularly cautious in maintaining our liquidity and balance sheet strength. As of 31 December 2018, we maintained zero bank borrowing similar to what we had done since the inception of our business. We are committed to managing our balance sheet prudently.

During 2018, we hired new members to the management team. We are investing and strengthening our leadership bench. We are grooming the new generation to gain the necessary experience and exposure to take the company to the next level. We are organising strategy workshops for us to develop and articulate a long-term vision to embrace the bright and exciting future.

In my view, the adversities we faced in 2018 actually strengthened our focus, honed our strategies, and shall serve as a proof of the Group's resiliency when we look back in the future.

Lee Ching Yiu
Chairman

Hong Kong, 29 March 2019

DIRECTORS

Executive Directors

Mr. Lee Ching Yiu, aged 63, was appointed as Executive Director in 2017. He is also the Chairman and Chief Executive Officer. Earlier in 2019, Mr. Lee became a remuneration committee member. Mr. Lee is the founder of the group and is primarily responsible for the overall management, strategy and operations of our Group. Prior to establishing the Group, Mr. Lee worked in toy manufacturing and had gained 27 years of experience in the industry. Mr. Lee received his Bachelor of Arts degree from the University of Hong Kong in November 1979.

Mr. Sherman Hung, aged 42, was appointed as Executive Director on 1 January 2019. Mr. Hung joined the Group as Assistant Chief Executive Officer and Chief Financial Officer on 11 September 2018. Mr. Hung is primarily responsible for the strategic development and corporate finance management of our Group.

Prior to joining the Group, Mr. Hung gained over 18 years of experience in investment banking and corporate banking. He had worked at a number of financial institutions including DBS, Morgan Stanley and Citigroup. He has led a number of landmark IPOs, capital market fund-raisings and strategic M&A transactions across the Asia Pacific region.

Mr. Hung graduated from the University of London with a Bachelor's degree in Economics and the University of Cambridge with a Master of Philosophy in Economics with Finance.

Ms. Zhong Mei, aged 48, was appointed as Executive Director in 2017. She is the Managing Director of Kidsland China and oversees the operations of the Group in the PRC, while also serving as a director for various Group subsidiaries. Prior to joining the Group in July 2001, Ms. Zhong was the Sales and Marketing Director of Beijing Hong Kong Garland Trading Company Limited, a branded toys distributor, from March 1999 to June 2001, where she oversaw organizational development and sales and marketing operations of the firm's overseas business. From November 1993 to February 1999, Ms Zhong served as National Business Manager of the toys division of East Asiatic Company (China) Limited, Santa Fe Group A/S's wholly-owned subsidiary, where she also oversaw organizational development and operations of the firm's overseas business. Ms. Zhong received her Bachelor's degree in English from the Civil Aviation University of China in July 1992 and Executive Master's degree in Business Administration from the China Europe International Business School in China in September 2005.

Non-executive Directors

Mr. Du Ping, aged 48, was appointed as Non-executive Director in 2017. He has been the Financial Controller of Lovable Holdings Limited since July 2005, overseeing financial reporting and management. Mr. Du received his Bachelor of Accounting degree from the Capital University of Economics and Business (previously known as the Beijing Economics College) in July 1993, and his Master's degree in 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 recognised by the Ministry of Personnel and the Ministry of Finance as a Chinese Accountant in the PRC in October 1994.

Ms. Duan Lanchun, aged 44, was appointed as Non-executive Director on 31 August 2017. As 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 Deloitte Touche Tohmatsu in Shanghai. She has been a Director of Zbom Cabinets Company Limited (stock code: 603801), a company listed on the Shanghai Stock Exchange, since July 2017. She has also been a Director of Shanghai Bandweaver Technologies Company Limited (stock code: 839861) since August 2015 and SINO-KOR Plastic & Aesthetic Hospital Holding Co., Ltd. (stock code: 430335) since June 2015; both companies are listed on the National Equities Exchange and Quotations (NEEQ). Ms. Duan received her Bachelor's degree in Economics, majoring in Accounting, from Central University of Finance and Economics in July 1997 and her Master's degree in Business Administration from the China Europe International Business School in September 2010.

Independent Non-executive Directors

Mr. Cheng Yuk Wo, aged 58, 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 since August 1998, the HKICPA since January 1999, 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 worked at Coopers and Lybrand (now known as PricewaterhouseCoopers Limited) in London between 1984 and 1987 and Swiss Bank Corporation (now known as UBS AG) in Toronto between 1989 and 1992, and has held senior management positions in a number of Hong Kong listed companies. Mr. Cheng is an 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: 1827).

Mr. Lester Garson Huang, aged 59, 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 a practicing solicitor and Managing Partner at P.C. Woo & Co., where he oversees its probate and trust administration practice and was appointed as Co-chairman in January 2016. He became a qualified solicitor of Hong Kong in March 1985, a notary public in 1997, and Civil Celebrant of Marriages in 2006; a qualified solicitor of England and Wales in 1990, a solicitor and barrister in Australia in 1991 and in Singapore in 1995, and has since acquired over 30 years of post-qualification experience as a solicitor. Mr. Huang graduated from the University of Hong Kong in 1982 with a Bachelor of Laws degree, in 1983 with a Postgraduate Certificate in Laws, and from the Chinese University of Hong Kong in 2006 with a Master of Education degree.

In 2002, the Government of the HKSAR appointed Mr. Huang as a Justice of the Peace and in 2018, awarded him a Silver Bauhinia Star for serving the public. Appointed by the Chief Executive of Hong Kong, he has been Chairman of Council of the City University of Hong Kong since January 2018. He is also Chairman of the Standing Committee on Language Education and Research.

Mr. Huang has been an Independent Non-executive Director at Lam Soon (Hong Kong) Limited (stock code: 411) since November 2013 and at International Housewares Retail Company Limited (stock code: 1373) from September 2013 to September 2015. Mr. Huang served as a member of the Hospital Authority from December 2012 to December 2018 and has been Non-executive Director of the Securities and Futures Commission since 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.

Dr. Lam Lee G., aged 59, 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. He is also a member of the Hong Kong Special Administrative Region Government's Committee on Innovation, Technology Re-Industrialization, the Council on Professional Conduct in Education (CPC), 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 Home Affairs Department, President of the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) Sustainable Business Network (ESBN) Executive Council and Chairman of its Task Force on Banking and Finance and President of Hong Kong-ASEAN Economic Cooperation Foundation.

Dr. Lam is an Independent Non-executive Director 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 Company Limited (Stock Code: 6837; 600837 on the Shanghai Stock Exchange), Huarong Investment Stock Corporation Limited (Stock Code: 2277), Hua Long Jin Kong Company Limited (Stock Code: 1682), Hsin Chong Group Holdings Limited (Stock code: 404), Mingfa Group (International) Company Limited (Stock Code: 846), and Aurum Pacific (China) Group Limited (Stock Code: 8148). He is a Non-executive Director of Sunwah Kingsway Capital Holdings Limited (Stock Code: 188), China LNG Group Limited (Stock Code: 931), National Arts Entertainment and Culture Group Limited (Stock Code: 8228), China Shandong Hi-Speed Financial Group Limited (Stock code: 412), and Tianda Pharmaceuticals Limited (Stock Code: 455).

Dr. Lam is also an Independent Non-executive Director of the following listed companies on the Singapore Exchange: China Real Estate Group Limited (formerly Asia-Pacific Strategic Investments Limited, Stock code: 5RA), Top Global Limited (Stock code: BHO), and China Medical (International) Group Limited (Stock code: 5IB), and a Non-executive Director of Singapore eDevelopment Limited (Stock code: 40V). Dr. Lam is an Independent Non-executive Director of Sunwah International Limited (Stock code: SWH), whose shares are listed on the Toronto Stock Exchange, and an Independent Non-executive Director of AustChina Holdings Limited (Stock code: AUH), whose shares are listed on the Australian Securities Exchange and TMC Life Sciences Berhad (Stock code: 0101), whose shares are listed on the Bursa Malaysia, and a Non-executive Director of Adamas Finance Asia Limited (Stock code: ADAM), whose shares are listed on the London Securities Exchange.

Dr. Lam was a Non-executive Director of Roma Group Limited (Stock code: 8072), and an Independent Non-executive Director of Imagi International Holdings Limited (Stock code: 585) and Xi'an Haitiantian Holdings Company Limited (Stock code: 8227), the shares of all of which are listed on the Stock Exchange, and an Independent Non-executive Director of Vietnam Equity Holding (Stock code: 3MS), whose shares are listed on the Stuttgart Stock Exchange, and Rowsley Limited (Stock code: A50), whose shares are listed on the Singapore Exchange.

Dr. Lam has over 30 years of international experience in general management, management 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. A former member of the Hong Kong Bar Association, he is a Solicitor of the High Court of Hong Kong, an Honorary Fellow of CPA Australia, a Fellow of CMA 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 both the Hong Kong Institute of Facility Management and the University of Hong Kong School of Professional and Continuing Education (HKU SPACE).

SENIOR MANAGEMENT

Ms. Zhang Ying, aged 54, is the Group's National Director overseeing sales and operations of national retail stores in the Mainland. Ms. Zhang is Director at Beijing Huizhilesi Commercial Company Limited. She is also overseeing the Group's LCS (LEGO Certified Store) business in the PRC.

Prior to joining the Group in July 2001, Ms. Zhang served as North Regional Manager at Beijing Hong Kong Garland Trading Company Limited, a toys distributor, from March 1999 to July 2001, where she was primarily responsible for daily sales and operation management in Northern China. From January 1994 to February 1999, she oversaw Northern China daily sales and operations when she was Regional Manager for the toys division at East Asiatic Company (China) Limited, a wholly-owned subsidiary of Santa Fe Group A/S, which is a Company that is listed on NASDAQ Nordic and distributes international consumer products.

Mr. Yang Kewei, aged 51, is the Group's National Director overseeing wholesale distribution in the Mainland. Prior to joining the Group in July 2001, Mr. Yang served as Area Manager from April 2000 to July 2001, overseeing Central China operations of Beijing Hong Kong Garland Trading Company Limited, a toys distributor. From May 1997 to February 1999, Mr. Yang served as Acting Toy Priority City Manager at East Asiatic Company Marketing Services China, a wholly-owned subsidiary of Santa Fe Group A/S.

Ms. Zhang Weili, aged 55, is the Group's National Director that oversees the sales and operation of consignment counters in department stores in the Mainland. Prior to joining our Group in July 2001, from June 1989 to July 1992, Ms. Zhang served as an assistant for the Director at Airland Mattress Company HK Limited (Shenzhen) (now known as Shenzhen Airland Furnture Limited), where she managed day-to-day operations of the Director's office and of various departments.

Ms. Chang Rong, aged 50, is the group's Finance and IT Director in the Mainland. Prior to joining the Group in May 2004, from 1995 to 2000, Ms. Chang served as Regional Finance Manager at Jardine Logistics (China) Limited, supervising its finance team. In May 2001, Ms. Chang qualified as a Certified Public Accountant in China.

Ms. Cao Yuelin, aged 45, is Marketing Manager of the Group, overseeing brand management and marketing strategies. Prior to joining the Group in July 2001, Ms. Cao served as Sales Supervisor of the toys department at East Asiatic Company from March 1995 to March 1999, where she was primarily responsible for sales and marketing in Beijing.

Mr. Chan Darren Chun-Yeung, aged 37, is the Financial Controller of the Group. He joined us in January 2019 and is responsible for day-to-day operations of finance, accounting, and company secretarial matters including compliance to relevant laws and regulations. Previously, Mr. Chan was Executive Director of Bar Pacific Group Holdings Limited. Mr. Chan has also worked for Milon Wine (Hong Kong) Company Limited, a subsidiary of Midea Group, as its Finance Manager. From 2006 to 2013, Mr. Chan received training as a professional accountant at Deloitte Touche Tohmatsu. In 2019, he qualified as a Fellow Practising Member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ng Kwok Shek Marco, aged 43, is the Group's General Manager, oversees our Hong Kong retail operations. Before joining us in June 2016, Mr. Ng was Sales Manager at Lane Crawford (Hong Kong) Limited, a premier retailer, from March 2013 to May 2016, where he oversaw men's and women's sales operations. From October 2010 to February 2013, Mr. Ng was Operations Director at the retailer Golfjunkie (China) Ltd. From July 2008 to September 2010, Mr. Ng served as an area manager at ImagineX Group, a premier retailer, where he was responsible for the Hong Kong sales performance of the Marc Jacobs brand.

* *For identification purpose only*

OVERVIEW

2018 proved to be an extremely challenging year for the Group business. A confluence of factors – the weakening economic environment in the PRC, the US-China trade tensions, price competition in the marketplace, and rising operating costs – all played a role in the Group's HK$100.1 million net loss in 2018.

Despite the challenging environment, the Group managed to grow revenue by about 5.0% from approximately HK$1,862.2 million to approximately HK$1,954.4 million. Revenue from our retail shops rose 25.1% to approximately HK$732.0 million in 2018. Revenue of toy products rose 7.3% in 2018 to approximately HK$1,856.1 million. These showed that the fundamental top-line growth momentum remained intact.

However, a three-percentage-point contraction in gross profit margin caused the total gross profit to drop 1.9% or approximately HK$16.8 million in 2018, compared to 2017. There was a significant increase in aggregate selling, distribution, and general and administrative expenses by 22.9% or approximately HK$178.6 million from 2017 to 2018. Share-based payments (to directors as well as other staff) and net exchange loss in 2018 totalled approximately HK$43.9 million, or a rise of approximately HK$39.2 million compared to 2017.

MAJOR DEVELOPMENTS IN RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 31 December 2018, this network comprises:

Self-operated Retail Channels

– 776 self-operated retail points of sale, consisting of retail shops and consignment counters (31 December 2017: 780);

– 22 online stores (31 December 2017: 14)

Wholesale Channels

– 931 distributors (31 December 2017: 962), who onsell our products through third party retailers or at their own retail shops, the number of which amounts to over 3,000 (31 December 2017: over 2,900)

– 16 hypermarket and supermarket chains (31 December 2017: 14)

– 7 online key accounts (31 December 2017: 13)

Self-operated Retail Channels

Retail Shops

Our retail shops include both single-brand shops (i.e. LEGO Certified Store) and multi-brand shops that sell toys as well as baby toys (i.e. Kidsland) and multi-brand shops that sell baby toys and products for infants (i.e. Babyland) of various brands.

During 1 January 2018 to 31 December 2018 (the "Reporting Period"), we opened seven LEGO Certified Stores in Mainland China and one in Hong Kong, while we continued to optimise our network of Kidsland and Babyland stores.

Changes in the number of retail shops for the years indicated are shown below:

	2018	2017
Retail shops		
At the beginning of the year	**245**	217
Addition of new retail shops	**40**	51
Closing of retail shops	**(28)**	(23)
At the end of the year	**257**	245

Consignment counters

Most of our consignment counters had been located at renowned department stores and a renowned global toy store chain, and operated under the brand names of Kidsland and Babyland. During 2018, we continued to open new counters only at strategically selected well-known department stores. At the same time, we terminated loss-making consignment counters.

Changes in the number of consignment counters for years indicated are shown below:

	2018	2017
Consignment counters		
At the beginning of the year	**535**	524
Addition of new consignment counters	**56**	86
Closing of consignment counters	**(72)**	(75)
At the end of the year	**519**	535

Online stores

During 2018, the Group launched 11 flagship stores of brands that we represent on third-party-operated online platforms such as Tmall, JD.com, Xiaohongshu, and Kaola. As of 31 December 2018, we had 22 online stores in total, compared with 14 in total in 31 December 2017.

Wholesale Channels

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

Distributors

Selling to distributors reduces logistics and warehousing costs, improves working capital position, and expands our network into promising markets that were untapped by our retail points.

As of 31 December 2018, we had 931 distributors (2017: 962), who onsell our products at retail shops, which totaled to more than 3,000 in the PRC, or through third party retailers. By leveraging our distributors' geographical base, retail point locations, distribution network, business strategies, financial resources, and expertise, 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:

	2018	2017
Distributors		
At the beginning of the year	**962**	805
Addition of new distributors	**282**	374
Expiry without renewal of agreements with distributors	**(313)**	(217)
At the end of the year	**931**	962

Hypermarket and Supermarket Chains

Hypermarkets and supermarkets are generally divided into upscale supermarkets, community supermarkets, convenience stores, and shopping clubs with membership schemes. Partnerships with such store chains drive sales by enabling our products to reach wider audiences across the PRC.

We selected hypermarket and supermarket chains based on their market position, retail network, logistics capability, financial health, and compatibility with the Group's business strategies and prefer these chains to have electronic reporting systems that allow us to reconciliate real-time sales records.

As of 31 December 2018, we had wholesale arrangements with 16 hypermarket and supermarket chains (2017: 14) with a sum of 689 (2017: 640) retails points in Tier 1, 2 and 3 cities in the PRC (based on 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:

	2018	2017
Hypermarket and supermarket chains		
At the beginning of the year	**14**	12
Addition of new hypermarket and supermarket chains	**2**	3
Termination or expiry of agreements with hypermarket and supermarket chains	**–**	(1)
At the end of the year	**16**	14

Online Key Accounts

The internet has become one of the main distribution channels in the PRC. To access this market segment, we have sold our products through such platforms as JD.com, Amazon.cn, and Dangdang, which were selected based on their reputation, financial condition, and market share. During 2018, the number of our online key accounts is consolidated to be 7 (2017: 13).

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

	2018	2017
Online key accounts		
At the beginning of the year	**13**	14
Addition of new online key accounts	**2**	5
Termination or expiry of agreements with online key accounts	**(8)**	(6)
At the end of the year	**7**	13

FINANCIAL REVIEW

Revenue

For 2018, the revenue of the Group increased by 5.0% from approximately HK$1,862.2 million for 2017 to approximately HK$1,954.4 million.

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

	2018 HK$'000	2017 HK$'000
Self-operated retail channels		
– Retail shops	**731,990**	585,203
– Consignment counters	**615,544**	580,465
– Online stores	**99,176**	90,271
Sub-total:	**1,446,710**	1,255,939
Wholesale channels		
Online/offline wholesale		
– Distributors	**382,002**	499,916
– Hypermarkets and supermarket chains	**39,550**	48,706
– Online key accounts	**86,147**	57,615
Sub-total:	**507,699**	606,237
Total:	**1,954,409**	1,862,176

Self-operated Retail Channels

The self-operated retail channels saw revenue growth of 15.2% to HK$1,446.7 million in 2018. It is mainly driven by a strong growth of revenue of 25.1% from our retail shops, reaching revenue of approximately HK$732.0 million in 2018. Revenue from consignment counters and online stores grew 6.0% and 9.9% respectively in 2018, to approximately HK$615.5 million and approximately HK$99.2 million, respectively.

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

	2018 HK$'000	2017 HK$'000
Multi-brand retail shops		
– Kidsland stores / Babyland stores	**476,606**	429,600
– Others	**19,976**	–
Sub-total	**496,582**	429,600
Single-brand retail shops		
– LEGO Certified Store	**235,408**	151,900
– Others	**–**	3,703
Sub-total	**235,408**	155,603
Total	**731,990**	585,203

In our retail shop network, the growth was mainly driven by the rapid growth in sales from LEGO Certified Stores of 55.0% to HK$235.4 million in 2018. Our Kidsland and Babyland stores also grew their aggregate revenue by 10.9% to HK$476.6 million. However, this has been offset by the loss of distribution contract with Chicco. All Chicco stores were closed in 2018.

Wholesale Channels

For 2018, the revenue contributed by wholesale channels decreased by 16.3% from approximately HK$606.2 million for 2017 to approximately HK$507.7 million.

However, our online key accounts recorded sales growth of approximately HK$28.5 million, representing a 49.5% increase from the prior year. Combining revenue from online key accounts and online stores, our total revenue through direct e-commerce totaled approximately HK$185.3 million, or 9.5% of our total revenue in 2018 (2017: 7.9%).

Sales of toy products rose 7.3% to approximately HK$1,856.1 million in 2018. Sales of infant products declined 26.1% to approximately HK$98.4 million mainly due to clearance sales for Chicco products after the expiration of distribution agreement.

During 2018, sales of toy products accounted for 95.0% (2017: 92.9%) of our revenue and sales of infant products for 5.0% (2017: 7.1%).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 10.9% from approximately HK$995.7 million in 2017 to approximately HK$1,104.7 million in 2018. The increase was mainly due to an increase in sales volume and purchase costs of some of the Group's major products. Moreover, some of the major players in the PRC adopted aggressive pricing strategies and therefore higher discounts were offered for some of the Group's products. This, in addition to the expiration of the distribution agreement with Chicco, contributed to decreasing the Group's gross profit margin from 46.5% in 2017 to 43.5% in 2018. As a result, gross profit decreased from approximately HK$866.5 million for 2017 to approximately HK$849.7 million for 2018.

Other Income

Other income, consisting mainly of government grants and promotion income from brand owners, decreased by approximately HK$2.5 million from approximately HK$25.9 million in 2017 to approximately HK$23.4 million in 2018.

Other Gains and Losses

Other losses increased by approximately HK$13.9 million from a loss of approximately HK$0.1 million for 2017 to a loss of approximately HK$14.0 million for 2018. The increase in other losses was mainly due to an increase in exchange loss from approximately HK$1.0 million for 2017 to approximately HK$15.1 million for 2018. The exchange loss was mainly due to the weakening of Reminbi during the year.

Selling and Distribution Expenses

Selling and distribution expenses increased by 20.0% from approximately HK$688.5 million for 2017 to approximately HK$826.3 million mainly due to (i) increase in overall wages and social benefits of Mainland workers especially in Tier 1 and Tier 2 cities; (ii) increase in rental expenses of stores at prime locations; and (iii) advertising and promotion expenses for new products and new distribution channels including but not limited to new online flagship stores.

General and Administrative Expenses

General and administrative expenses increased by 45.4% from approximately HK$89.8 million in 2017 to approximately HK$130.6 million in 2018. They represent mainly salaries, other benefits and retirement benefit scheme contributions, rental, building management, and office expenses. The increase was manly due to increase of share based payment, increase of staff costs and increase of legal and professional fees.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the listing of shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2017. No listing expenses were incurred in 2018 (2017: approximately HK$19.9 million).

Finance Costs

No finance costs were incurred in 2018. For 2017, the Group's finance costs represented interest expenses arising from the bank loan drawn in 2017.

Loss / Profit Before Tax

As a result of the foregoing, the Group's profit before tax dropped from approximately HK$93.5 million in 2017 to a loss before tax of approximately HK$94.1 million in 2018.

Income Tax

The Group's income tax expenses decreased from approximately HK$28.1 million in 2017 to approximately HK$6.1 million in 2018.

Loss for the Year

A loss of approximately HK$100.1 million was recorded for 2018 (2017: HK$65.4 million profit).

Adjusted EBITDA loss (earnings before Interest Income, Finance Costs, Income Tax, Depreciation, Amortisation, adjusted for share based payment and net exchange loss) for the Year

Adjusted EBITDA was HK$130.6 million for 2017 and declined to an adjusted EBITDA loss of HK$4.5 million for 2018.

Adjusted EBITDA loss for six months ended 30 June 2018 was HK$15.3 million.

Trade Receivables and Payables

As at 2018, turnover days of trade receivables increased 1.2 days to 33.8 days as compared to 31 December 2017. Trade payables turnover days decreased 8.2 days to 94.1 days as compared to 2017.

Inventory Turnover

The inventory turnover days of the Group decreased from 206.0 days in 2017 to 203.6 days in 2018.

Cash Conversion Cycle

The cash conversion cycle is a metric that shows the amount of time it takes a company to convert its investment in inventory to cash, which equals to inventory turnover (days) plus accounts receivable turnover (days) minus accounts payable turnover (days).

The cash conversion cycle increased from 136.3 days in 2017 to 143.3 days in 2018.

Capital Expenditure

During the year, the Group invested approximately HK$58.7 million (2017: approximately HK$40.3 million) in property, plant and equipment mainly to renovate existing shops and set up new shops.

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2018 were approximately HK$128.1 million compared to approximately HK$311.7 million as at 31 December 2017. The current ratio and quick ratio as at 31 December 2018 were 2.9 and 1.2 respectively (31 December 2017: 3.0 and 1.5 respectively).

As at 31 December 2018, the Group had aggregate banking facilities of approximately HK$125.6 million (31 December 2017: approximately HK$90.0 million) for bank loans and trade financing, of which approximately HK$98.8 million (31 December 2017: approximately HK$84.9 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 2018 and hence no gearing ratio is presented.

Charge of Assets

As at 31 December 2018, no charges have been made on the Group's assets (31 December 2017: Nil).

Contingent Liabilities

As at 31 December 2018, the Group did not have significant contingent liabilities (31 December 2017: 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 Dollar. Although our 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

During the year, there was no significant investments held by the Group and the Group did not have other plans for material acquisition and disposal.

Employees and Remuneration Policy

As at 31 December 2018, the Group had approximately 2,300 employees (including both self-employed and outsourced employees) (2017: approximately 2,300 employees) in the PRC and Hong Kong. Total remuneration for self-employed and outsourced employees for the year ended 31 December 2018 amounted to approximately HK$175.1 million and HK$137.9 million respectively (2017: approximately HK$167.3 million and HK$47.8 million respectively). The Group's remuneration packages comply with legislation in relevant jurisdictions and were decided based on market conditions and employees' levels of experience and qualifications; bonuses were awarded based on employee performance and the Group's financials. As in previous years, the Group has ensured adequate training and professional development opportunities to employees.

REPORT OF THE BOARD OF DIRECTORS

The Directors are pleased to present the Group's annual report and audited Consolidated Financial Statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND PERFORMANCE ANALYSIS

The principal activity of the Company is investment holding. Its subsidiaries are engaged in toy retailing in Hong Kong and toy and infant product retailing and wholesaling in the PRC. Activities of the Company's principal subsidiaries are set out in note 35 of the Consolidated Financial Statements.

Note 6 of the Consolidated Financial Statements contains a performance analysis of the Group's revenue channels (e.g. retail, wholesale) and geographical segments.

BUSINESS REVIEW AND PROSPECT

Refer to the Chairman's Statement on pages 3 to 5 and the section Management Discussion and Analysis on pages 12 to 21 for key financial performance indicators for the year ended 31 December 2018.

The financial risk management objectives and policies of the Group is set out in note 30b of the Consolidated Financial Statements.

The Company commits to cultivating ethical conduct and complying with all prevailing laws and regulations. There were no material non-compliance cases or breaches of legislation in 2018.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after 31 December 2018 and up to the date of this annual report.

RESULTS

The Group's 2018 results are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 51.

FINAL DIVIDEND

For the year ended 31 December 2018, the Board does not recommend the payment of a final dividend (2017: 2.23 HK cents per ordinary share).

DIVIDEND POLICY

The Directors considers the main objectives of the Dividend Policy are to provide sustainable returns and a stable dividend payment to shareholders.

The Board determines the interim dividend and recommends the final dividend which requires the approval of shareholders. In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares also requires the approval of shareholders.

Retained surplus is used to achieve further gains in corporate value. For this purpose, the Board makes effective use of retained surplus to strengthen the operating base and fund growth of established businesses and the development of new businesses. Through paying dividends, the Board allows shareholders to participate in the Company's profits whilst preserving the Company's liquidity for future growth opportunities.

To decide whether to pay a dividend and to what extent, subject to the Memorandum and Articles of Association of the Company, the Companies Law of the Cayman Islands and all applicable laws and regulations governing dividend policy, the Board shall consider the following:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and Group subsidiaries;

(c) the Group's working capital and capital expenditure requirements as well as future expansion plans;

(d) the Group's liquidity position;

(e) general economic conditions, business cycle of the Group's business;

(f) restrictions under the Cayman Islands laws and the Company's articles of association; and

(g) other factors that the Board considers relevant.

The Board will continually review the Dividend Policy without guaranteeing that dividends will be paid in any amount for any given period.

ANNUAL GENERAL MEETING

The Company's annual general meeting shall be held on Friday, 31 May 2019 (the "2019 AGM"). A notice convening the 2019 AGM, along with 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 2019 AGM

The Company will close its Register of Members from Tuesday, 28 May 2019 until Friday, 31 May 2019 to count and fix the number of attendees and voters that shall be present at the 2019 AGM. New shareholders that wish to attend and vote at the 2019 AGM should, therefore, register their share transfer(s) and provide their share certificates before 4:30 p.m. on 27 May 2019 to the Company's share register, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group has committed to protecting the environment. For more information regarding the Group's Environmental, Social and Governance ("ESG") performance for 2018, refer to the ESG report, which adheres to the Environmental, Social and Governance Guide (Appendix 27) of the Listing Rules and will be available on the Company's website a few months after the publication of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 118.

SHARE CAPITAL

Changes in the Company's share capital during the year are set out in note 27 of 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 2018.

RESERVES

Details of the changes in the Group's reserves in 2018 are set out in the Consolidated Statement of Changes in Equity of the Consolidated Financial Statements.

As at 31 December 2018, the Company's reserves available for distribution to shareholders amounted to approximately HK$377.4 million.

According to the Companies Law (Revised) of the Cayman Islands, the share premium of the Company, subject to the provisions of its Memorandum of Association and Articles of Association, is available for payment as distributions or dividends payment to shareholders, provided that immediately following the distribution or dividend payment, the Company can pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained earnings account or another account representing the Company's share premium account.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 86% of the Group's total purchases; and the percentage of purchases attributable to the Group's largest supplier accounted for approximately 60% of the Group's total purchases. The percentages of sales for the year attributable to the Group's five largest customers accounted for approximately 10% of the Group's total sales.

None of the Directors, their close associates, or shareholders owning more than 5% of the Company's share capital had interests in any of the Group's five largest suppliers or customers.

DIRECTORS

Executive Directors:
Mr. Lee Ching Yiu (Chairman)
Mr. Hung Shing Ming (appointed on 1 January 2019)
Dr. Lo Wing Yan William (resigned on 31 December 2018)
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.

In accordance with Article 84 of the Articles of Association, at each annual general meeting, one-third of the Board's roster (if the number is not a multiple of three, we round up) shall retire from office by rotation. Given that all directors must rotate at least once every three years, Mr. Lee Ching Yiu, Ms. Zhong Mei and Mr. Du Ping will retire as well as offer themselves for re-election at the 2019 AGM.

In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board as an addition to the existing Board member shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. As such, Mr. Hung Shing Ming, being executive Director, would be eligible and had offered himself for re-election at the 2019 AGM.

The Company offered all Executive Directors three-year service agreements whose termination requires written notice at least three months in advance. 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 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 personnel of the Group are set out on pages 6 to 11.

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 2018 and remain independent as of the date of this annual report.

DIRECTORS' SHAREHOLDINGS

As at 31 December 2018, 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(1)	4,000,000	0.50%
	Held by controlled corporation; beneficial owner(2)	435,224,523	54.4%
Dr. Lo Wing Yan William	Held by controlled corporation(3)	23,999,280	3.00%
Ms. Zhong Mei	Beneficial owner(1)	4,000,000	0.50%
	Held by controlled corporation(4)	29,999,100	3.75%
Mr. Du Ping	Beneficial owner	1,500,000	0.19%
	Held by controlled corporation(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.

Short positions

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Lee Ching Yiu	Held by controlled corporation[(1)]	12,000,000	1.5%

(1) Mr. Lee Ching Yiu is the sole shareholder of 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. 12,000,000 Shares held by Asian Glory were agreed to be transferred to Mr. Hung Shing Ming at a total consideration of HK$1, subject to Mr. Hung Shing Ming remaining employed by the listed corporation or its subsidiaries up to 27 December 2019.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2018, 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

The Post-IPO Share Option Scheme

On 20 October 2017, a post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted, through a written resolution passed by the Company's shareholders, to motivate and reward eligible participants, including (i) full-time or part-time employees, executives, or officers of the Company and its subsidiaries; (ii) Directors (including Independent Non-Executive Directors) of the Company and its subsidiaries; and (iii) advisors, consultants, suppliers, customers, and distributors (collectively, the "Post-IPO Eligible Participants"), who in the sole opinion of the Board will contribute or have contributed to the Group.

Options granted under the Post-IPO Share Option Scheme will expire within 10 years after issuance. As at the date of this annual report, the Post-IPO Share Option Scheme had a remaining life of more than 8 years.

Options that are granted to Directors, Chief Executives, substantial shareholders of the Company, or any of the foregoing parties' associates need to be approved by Independent Non-executive Directors that are not among the proposed grantees. A proposed share option grant requires prior approval through a polled shareholder resolution sans the Company's connected persons (identified according to the Listing Rules) if (i) the proposed grantee is a substantial shareholder, Independent Non-executive Director, or associate of either one; and (ii) the share option grant introduces the theoretical possibility of a substantial aggregate increase via options-exercising at any point during any twelve-month span to the grantee's total shareholding; an increase is substantial if it exceeds either (i) 0.1% of the total number of issued Company shares calculated on the day of the grant; or (ii) HK$5 million in value, based on the closing share price on the day of the grant.

For a proposed share option grant whose proposed grantee is neither a substantial shareholder, Non-executive Director, nor associate of either one, prior approval through a shareholder poll sans the Company's connected persons (identified according to the Listing Rules) is needed if the share option grant introduces the theoretical possibility of an aggregate increase, at any point during any twelve-month span via options-exercising, that exceeds 1% of the total of issued Company shares to the grantee's total shareholding.

The aggregate total of underlying Company shares of options granted, whether through the Post-IPO Share Option Scheme or other means, must never exceed 10% of the total number of issued Company shares unless Company shareholders approve otherwise.

Options granted under the Post-IPO Share Option Scheme must have exercise prices, which are determined by the Directors, that are higher than (i) the Company's closing share price on the day of the grant, (ii) the Company's nominal share value, and (iii) the average of the Company's five most recent closing share prices before the day of the grant.

Each options grant, regardless of size, has a HK$1.00 nominal price that the grantee must pay on or before the day of the grant. Unless the Board defines restrictions beforehand, option grantees may exercise their options as soon as they receive them. The Post-IPO Share Option Scheme will stop yielding new share options on 20 October 2027; its provisions, however, will take effect for as long as needed unless duly annulled at a general meeting.

No share option was granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme since its adoption and up to 31 December 2018. No share option was outstanding under the Post-IPO Share Option Scheme as at 31 December 2018.

The Pre-IPO Share Option Scheme

On 20 October 2017, the Pre-IPO Share Option Scheme was adopted, through a written resolution passed by the Company's shareholders, to motivate, retain, and reward eligible full-time key employees, consultants, and Directors of the Company or any of its subsidiaries (the "Pre-IPO Eligible Participants").

The following table summarises the status of options granted under the Pre-IPO Share Option Scheme:

	Outstanding at the beginning of the year	Exercised during the year	Lapsed or cancelled during the year	Granted during the year	Outstanding at the 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	–	(2,300,000)	–	31,700,000
Total	47,500,000	–	(6,300,000)	–	41,200,000

Options comprising 6,300,000 underlying Shares (2017: Nil) granted under the Pre-IPO Share Option Scheme lapsed during the year, and the corresponding share option reserves of HK$1,985,000 were reclassified as retained earnings.

We used the following estimates to determine the binomial tree model's parameters used for predicting the fair value of options granted in 2017. These estimates also affected the amount of such equity awards expected to vest and ultimately the calculation of share-based payments. 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.

	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 2018.

Share Options granted under the Pre-IPO Share Option Scheme may be exercised from the first day of the following exercisable periods until 24 October 2027:

	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
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 the transactions disclosed in note 34a of the Consolidated Financial Statements and in the "Connected Transactions" section on page 29, 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 2018, so far as are known to the Board, 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[(1)]	439,224,523	54.90%
Asian Glory	Beneficial owner; held by controlled corporation[(2)]	425,224,523	53.15%
FCPR Cathay Capital II	Held by controlled corporation[(3)]	78,777,637	9.85%
Eurojoy Limited	Beneficial owner	78,777,637	9.85%

(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 that it holds directly and in those 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 held by Eurojoy Limited.

Short positions

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding
Ms. Tang Hoi Lun	Interest of spouse[(1)]	12,000,000	1.5%
Asian Glory	Held by controlled corporation[(2)]	12,000,000	1.5%

(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. 12,000,000 Shares which Mr. Lee Ching Yiu was interested in were agreed to be transferred to Mr. Hung Shing Ming at a total consideration of HK$1, subject to Mr. Hung Shing Ming remaining employed by the listed corporation or its subsidiaries up to 27 December 2019.

(2) 12,000,000 Shares were agreed to be transferred to Mr. Hung Shing Ming at a total consideration of HK$1, subject to Mr. Hung Shing Ming remaining employed by the listed corporation or its subsidiaries up to 27 December 2019.

Save as disclosed above, as at 31 December 2018, our Directors are not aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Continuing connected transactions which are fully exempted from 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"), who agreed to lease the premises situated on 21/F, 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 from 1 January 2016 to 31 December 2018 (both days inclusive). The total rent for the 12-month term ended 31 December 2016 was approximately RMB1 million; for each of the 12-month terms ended 31 December 2017 and 31 December 2018, RMB1.5 million (exclusive of utilities and management fees).

Land Smart is wholly-owned by Asian Glory, one of the controlling shareholders of the Company, and 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, who agreed to lease the premises situated on 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 from 1 July 2017 to 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 2018 was approximately HK$660,000.

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

Continuing connected transactions which are subject to reporting, annual review and announcement but exempted 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 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$2.7 million for the year ended 31 December 2018. 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 for the year ended 31 December 2017, HK$5 million for the year ended 31 December 2018, and HK$5.3 million for the year ending 31 December 2019.

84% of Captcha Media is owned by Strategenes Limited, which is in turn wholly-owned by Dr. Lo Wing Yan William and his spouse. Hence, 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 2018, the purchases by the Group from Dongguan Silverlit (and its associated companies) amounted to approximately RMB41.9 million (2017: RMB51.7 million). Prices for the Distribution Toys to be supplied pursuant to the Silverlit Exclusive Distribution Agreement were determined according to ex-factory prices (inclusive of 17% VAT). For the year ended 31 December 2018, no fees were paid by the Group to Dongguan Silverlit for the use of the Licenced Trademarks.

   The annual transaction targets pursuant to the Silverlit Exclusive Distribution Agreement are as follows: RMB74 million for the year ended 31 December 2017, RMB94 million for the year ended 31 December 2018, and RMB113 million for the year ending 31 December 2019. 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 the 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 its existing inventory of the Distribution Toys in the PRC within six months from the termination date (the "Sell-Off Period").

   The Silverlit Exclusive Distribution Agreement is a framework agreement which provides the mechanism for the operation of the Distribution. The Group is expected to enter into individual purchase agreements with Dongguan Silverlit or its associated companies occasionally. 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 other relevant specifications. 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. Since 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.

   31% of Dongguan Silverlit is indirectly owned by Mr. Choi Kei Fung, a director of Silverkids Inc.; 69% by his associates. Dongguan Silverlit is therefore 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 two publications by the Hong Kong Institute of Certified Public Accountants: the "Hong Kong Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and "Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The Board has received an unqualified letter from the auditors of the Company in accordance with Rule 14A.56 of the Listing Rules containing their findings and conclusion on the above continuing connected transactions of the Group, stating that the auditors did not notice anything that causes them to believe that any of these continuing connected transactions (a) had not been approved by the Board; (b) were not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and (c) exceeded the relevant annual caps for the financial year ended 31 December 2018. The Company has provided a copy of the auditor's letter 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 2018, neither the Company nor 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 BUSINESSES

As at the date of this annual report, none of the Directors or their close associates had interests in businesses which compete or are likely to compete with the Group's businesses in any way required to be disclosed under 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 Company's prospectus dated 31 October 2017 (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 2018.

SIGNIFICANT RELATED PARTY TRANSACTIONS

The continuing connected transactions disclosed above also constitute related party transactions under the Hong Kong Financial Reporting Standards. Note 34 of the Consolidated Financial Statements contains a summary of significant related party transactions made during the year.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 10 November 2017, the Company, in connection with its initial public offering (the "IPO"), issued 200,000,000 ordinary shares with HK$0.01 nominal values. Net proceeds after deducting underwriting commission and other IPO expenses amounted to 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 for the Group's existing brands or new brands; (iii) develop experience centres and associated products; and (iv) bolster its working capital.

An analysis of the utilisation of the net proceeds from the Listing Date up to 31 December 2018 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 2018 HK$ million
Expand the Group's retail network in the PRC and Hong Kong		
– Open flagship toy stores in the PRC	60.5	32.4
– Open Kidsland and Babyland stores in the PRC	46.1	32.7
– Open LEGO Certified Stores in the PRC and Hong Kong	34.6	29.5
– 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	34.6
Strengthen the Group's capabilities in product development under the Group's existing or new brands	51.9	31.4
Develop experience centres and associated products	31.7	17.0
	259.4	177.6

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 2,300 employees (including both self-employed and outsourced employees) (2017: approximately 2,300 employees) in the PRC and Hong Kong. Total remuneration for self-employed and outsourced employees for the year ended 31 December 2018 amounted to approximately HK$175.1 million and HK$137.9 million respectively (2017: approximately HK$167.3 million and HK$47.8 million respectively). The Group's remuneration packages comply with legislation in relevant jurisdictions and were decided based on market conditions and employees' levels of experience and qualifications; bonuses were awarded based on employee performance and the Group's financials. As in previous years, the Group has ensured adequate training and professional development opportunities to employees.

PERMITTED INDEMNITY PROVISION

According to the Company's Articles of Association, Directors are entitled to compensation from the Company for all losses or liabilities incurred due to or related to the execution of their duties. The Company has also bought liability insurance for Directors and officers.

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 2018 or there was not any subsisting equity-linked agreement entered into by the Company at the end of the year ended 31 December 2018.

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.

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.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by Messers. Deloitte Touche Tohmatsu.

On behalf of the Board

Mr. Lee Ching Yiu, *Chairman*
29 March 2019

CORPORATE GOVERNANCE REPORT

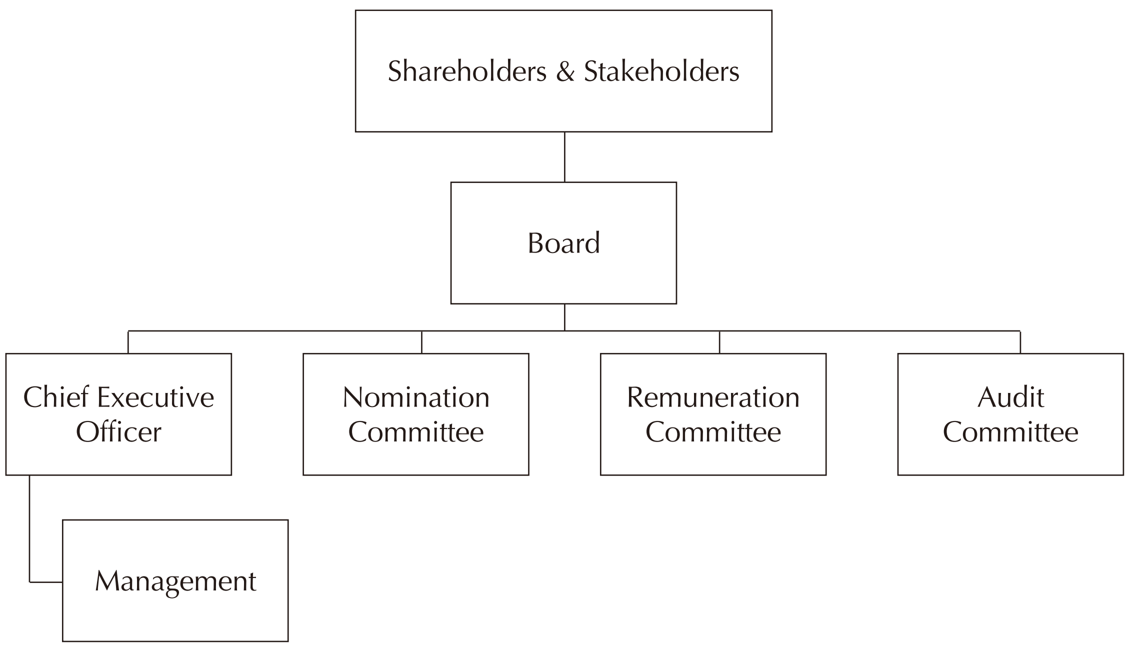
The Board is pleased to present this corporate governance report in the annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the CG Code for the year ended 31 December 2018 except for the deviation as stated below:

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. As the founder of the Group, Mr. Lee 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 continues to assume the roles of the Chairman and the CEO.

The chart below describes the relationship between the Board, the CEO and the management of the Company:



MODEL CODE SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by directors. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code regarding securities transactions by directors throughout the year ended 31 December 2018.

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)*
Mr. Hung Shing Ming *(appointed on 1 January 2019)*
Dr. Lo Wing Yan William *(resigned on 31 December 2018)*
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. The composition of the Board reflects the balanced skills and experience required for effective leadership. The biographical details of Directors are set out on pages 6 to 11 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 board directors should participate in continuous professional development to ensure that their contributions remain informed and relevant.

All of our Directors provided to the Company records of training that they received for the year ended 31 December 2018 by reading materials relating to the discharge of their duties and responsibilities and regulatory updates.

The Company is continuously updating Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and inform the Directors about good corporate governance practices.

DIRECTOR APPOINTMENT AND RE-ELECTION

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for specific terms subject to re-election. Code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for specific terms, should 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.

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.

COMPANY SECRETARY

On 4 February 2019, Mr. Chan Chun Yeung Darren was appointed as the Company Secretary of the Company in place of Ms. Wong Gianne (formerly known as Wong Yuk Ki) and Ms. Li Shun Mui. His biographical details are set out in the "Directors and Senior Management" section on page 11. In accordance with Rule 3.29 of the Listing Rules, he has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

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 align with the CG Code and are made available on the websites of the Company and the Stock Exchange. A list of the Chairman and members of each Board Committee is set out under "Corporate Information" on page 2.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors: Mr. Cheng Yuk Wo (as committee chairman), Mr. Huang Lester Garson, and Dr. Lam Lee G. It is mainly responsible for (i) making recommendations to the Board on the appointment, re-appointment, or removal of external auditors; (ii) reviewing draft interim reports, annual reports, and financial statements (including any significant financial reporting judgements mentioned in them); and (iii) overseeing the Company's financial reporting, risk management, and internal control systems.

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.

In 2018, the Audit Committee held two meetings with 100% attendance during which the Audit Committee reviewed and discussed the audit annual results for the year ended 31 December 2017 with the senior management of the Company and external auditor, reviewed and discussed the unaudited interim results for the six months ended 30 June 2018 with the senior management of the Company and external auditor, assessed the independence of the Company's auditors, reviewed the appointment of external auditors, had meetings with external auditors, reviewed the accounting policies adopted by the Group, and reviewed the internal controls, financial control, risk management systems and effectiveness of internal audit function of the Group. A subsequent meeting on 27 March 2019 allowed the Audit Committee to review the Group's internal control, financial control, risk management systems and effectiveness of internal audit function of the Group, and annual financial statements for the year ended 31 December 2018, which the Audit Committee believed to be compliant with accounting standards, the Listing Rules, and other legal requirements.

During the year ended 31 December 2018, the Audit Committee and the Board conducted a review of the effectiveness of the risk management and internal control system of the Company, respectively including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Company's accounting and financial reporting function. The Board considers that there are no significant defects in the Company's risk management and internal control system in terms of completeness, reasonableness and effectiveness and considers the Company's internal audit and internal control system to be effective and sufficient.

The Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee in 2018.

NOMINATION COMMITTEE

The Nomination Committee comprises three Independent Non-executive Directors: Dr. Lam Lee G. (as committee chairman), Mr. Huang Lester Garson, and Mr. Cheng Yuk Wo. It's mainly responsible for (i) reviewing the Board's composition, structure, size, and diversity; (ii) assessing the independence of the Independent Non-executive Directors; (iii) making recommendations to the Board on the nomination, appointment or re-appointment of Directors; and (iv) succession-planning, regarding in particular, the Chairman and CEO.

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.

During the year ended 31 December 2018, the Nomination Committee convened three committee meetings with 100% attendance, where it assessed (i) the independence of INEDs, (ii) the re-appointment of retired Directors, (iii) the appointment of Mr. Hung Shing Ming as Executive Director, (iv) the structure and composition of the Board; and (v) the nomination policy for Directors. The Nomination Committee also discussed matters such as nomination procedure of director candidates by shareholders and Director's rotations and succession planning. Attendance record of meetings during the year is set out on page 44.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including but not limited to the following in assessing the suitability of the proposed candidate:

(a) character and integrity;

(b) accomplishment, experience, and reputation in relevant industries;

(c) commitment in respect of sufficient time and interest in the Company's affairs;

(d) background (e.g. gender, age, education, skills, and knowledge);

(e) ability to support management and expected contribution to the Company;

(f) the needs of the Board and the respective committees of the Board and the current size and composition of the Board;

(g) understanding of and ability to fulfill a Director's fiduciary responsibilities towards the Company and the commitment of time and energy necessary to diligently carry out these responsibilities;

(h) in accordance to the Group's board diversity policy, as described below in the paragraph headed "Board Diversity Policy" in the Corporate Governance Report, diversity in all aspects, including but not limited to skills, experience, knowledge, expertise, culture, independence, age and gender; and

(i) any other factors as the Nomination Committee or Board deems relevant.

Once the Nomination Committee determines that an additional or replacement director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its evaluation of a candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the Nomination Committee, the Board or management.

REMUNERATION COMMITTEE

During the year, the Remuneration Committee consists of two Independent Non-executive Directors, namely Mr. Huang Lester Garson (as committee chairman) and Mr. Cheng Yuk Wo, as well as an Executive Director, Dr. Lo Wing Yan William. On 1 January 2019, Mr. Lee Ching Yiu was appointed as member of the Remuneration Committee, replacing Dr. Lo Wing Yan Wiliam.

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.

During the year ended 31 December 2018, the Remuneration Committee conveneed two meetings, with 100% attendance to review the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management, assess the performance of executive directors and other related matters.

For the year under review, the remuneration of Directors was determined by their experience, responsibility, workload, and time devoted to the Group. Executive Directors and employees were awarded bonuses according to the performance of the Group and their individual performance. Details of the Directors' remuneration are set out in note 12 of the consolidated financial statement.

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 as incentives or rewards to eligible participants for their contribution to the Group. Details of the Share Option Schemes are set out in the "Report of the Board of Directors" on page 26. The emolument payable to Directors and senior management will depend on contractual terms stated in their service agreements or appointment letters and is fixed by the Board, taking into account (i) the Remuneration Committee's recommendations, (ii) the Group's performance, and (iii) prevailing market conditions.

The remuneration of the Directors and senior management of the Company for the year ended 31 December 2018 was as follows:

Remuneration Band	Number of individuals
Less than HK$1,000,000	5
HK$1,000,001 to HK$2,000,000	3
HK$2,000,001 to HK$3,000,000	6
HK$5,000,001 to HK$6,000,000	2
HK$6,000,001 to HK$7,000,000	1

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

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse board to enhance performance. To build and maintain the Board's diverse composition, the Board adopted a Board Diversity Policy on 20 October 2017.

The Nomination Committee will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption. Director candidates' gender, age, cultural and educational background, professional experience, skills, knowledge, and length of service at the Company are accessed. These differences will be considered in determining the optimum composition of the Board. All Board appointments will be based on merit while taking diversity into account.

The Board has considered measurable objectives based on the following focus areas: (i) professional skills, experience, knowledge and expertise; (ii) gender; (iii) age; and (iv) culture and ethnicity. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this Annual Report, the Board comprises eight Directors. Three of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterized by significant diversity, in particular, in terms of professional expertise and experience, age, and culture.

Board Meetings

During the year ended 31 December 2018, at least 14 days' notice for all regular Board meetings has been given to all Directors and all Directors has been given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice has been given. During regular board meetings, the Board reviewed the Group's operation and financial performance and reviewed and approved annual and interim results.

During the financial year ended 31 December 2018, the Board held four meetings. Since being listed 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 for the financial year ended 31 December 2019, one board meeting was held on 27 March 2019. All Directors were given opportunities to include any matters in the agenda for regular board meetings and review documents and information about matters to be discussed at board meetings.

Board minutes are kept by the Company Secretary and open for inspection by the Directors. Every board member is entitled to access to board papers, related materials, and the advice and services of the Company Secretary; each board member also has the liberty to seek external professional advice for reasonable excuses.

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	Attendance/Number of Meetings for the financial year ended 31 December 2018				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Mr. Lee Ching Yiu	4/4	—	—	—	1/1
Dr. Lo Wing Yan William (resigned on 31 December 2018)	4/4	—	—	2/2	1/1
Ms. Zhong Mei	4/4	—	—	—	1/1
Mr. Du Ping	4/4	—	—	—	1/1
Ms. Duan Lanchun	4/4	—	—	—	0/1
Mr. Cheng Yuk Wo	4/4	2/2	3/3	2/2	1/1
Mr. Huang Lester Garson	4/4	2/2	3/3	2/2	1/1
Dr. Lam Lee G.	4/4	2/2	3/3	—	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$ million
Audit services	2.33
Non-audit services[(1)]	2.32
	4.65

(1) Non-audit services comprised mainly tax advisory services and a review of interim financial information.

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 2018, the Board has adopted suitable accounting policies, made prudent and fair judgments and estimates, and prepared the accounts under the assumption that the Company will continue operating for the foreseeable future. Nothing has compelled the Directors to assume otherwise.

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 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 pages 47 to 50.

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 manage and mitigate risks to help the Group achieve business objectives satisfactorily. The Audit Committee regularly 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 internal audit functions.

The risk management and internal control systems also facilitate effective and efficient operations, ensure reliability of financial reporting and compliance with applicable laws and regulations, and safeguard the Group's assets.

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 in areas including adequacy of resources, staff qualifications and experience, training programmes, and budget for accounting, internal audit, and financial reporting functions.

The Company has adopted corporate governance policies to ensure compliance with the Listing Rules and 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 2018 and help the Group adopt and implement enterprise risk management systems. 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 to be effective and adequate with no significant areas of concern. The review covered adequacy of resources, training programmes, qualifications and experience of staff, the Group's budget, accounting and financial reporting functions, and internal control. The Board will continue to work with management personnel to fix any internal control weaknesses and monitor the risks of the Group in the coming years.

Procedures and Internal Controls for the Handling and Disseminating Inside Information

To prevent breaching disclosing requirements, the Company has taken such measures as the following:

- Access of information is restricted to a limited number of employees on a need-to-know basis.
- Employees knowing or possessing inside information know that they need to keep it confidential.
- All employees are required to strictly adhere to the employment terms about handling confidential information.
- Employees that possess or likely will possess inside information must comply with the Model Code.

The Group complies with SFO requirements and the Listing Rules and discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours mentioned in the SFO. Before the information is fully disclosed to the public, the Group ensures strict confidentiality. 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 in the Company's announcements or circulars is not false or misleading as to a material fact, or false or misleading through omission of a material fact.

INTERNAL AUDIT FUNCTION

The Company does not have an internal audit department. After reviewing the Group's size and business, the Board concluded that it would be more cost-effective to appoint external professionals to perform independent reviews 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 Company's general meetings foster communication between shareholders and the Board. General meetings besides the annual general meeting are called extraordinary general meetings ("EGMs").

Convening EGMs

To convene EGMs, shareholders or groups of shareholders that (i) have voting rights at general meetings and (ii) hold at least 10% of the Company's paid-up capital ("Eligible Shareholders") may send written requisitions to the Company Secretary at the Company's principal place of business in Hong Kong (28/F, Times Tower, 391-407 Jaffe Road, Wan Chai, Hong Kong). Each requisition must be signed by the Eligible Shareholders and contain (i) the Eligible Shareholders' names and shareholdings, (ii) reasons for convening an EGM, (iii) a meeting agenda, and (iv) details of agenda items.

After verifying the identity and shareholding of the requisition with Tricor Investor Services Limited, the Company's share registrar, the Company Secretary shall ask the Board to convene an EGM within two months of the requisition's deposit date if Tricor finds the requisition proper and in order.

Enquiries to the Board

Shareholders may send enquiries to the Company for the attention of the Company Secretary 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.

Director Nominations

A shareholder wishing to nominate a candidate to become a Company director must deposit a written notice (the "Notice") to Tricor Investor Services Limited, the Company's share registrar in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for the attention of the Company Secretary.

The Notice must be signed by the nominator and contain (i) the nominator's name, (ii), the nominator's shareholding, (iii) the nominee's full name, and (iv) the nominee's biographical details written according to Rule 13.51(2) of the Listing Rules; the nominee must also sign a letter of consent (the "Letter") to indicate willingness to become a director.

The period for lodgement of the Notice and the Letter shall last for at least seven days, beginning any day after the day the Company announces about the general meeting in which directors will be elected and ending no later than seven days before the date of the general meeting.

After the Company's share registrar confirms that the Notice is proper and in order, the Company Secretary will ask the Board and its Nomination Committee to consider approving a meeting resolution to elect the nominee as a director.

Procedures for shareholders to put forward proposals at general meetings

To put forward a proposal at a general meeting, shareholders should lodge a written notice of their proposal (the "Proposal") containing their detailed contact information to the Company's principal place of business in Hong Kong; they should also send a copy of the Proposal to the Company's share registrar whose contact details are set out on page 2 of this annual report.

The request will be verified with the Company's share registrar in Hong Kong. Upon the share registrar's 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 given to all shareholders to consider the Proposal at the general meeting varies according to the following criteria:

(1) At least 21 clear days and 20 clear business days in writing if the Proposal requires approval at an annual general meeting; and

(2) At least 14 clear days and 10 clear business days in writing if the Proposal requires approval at an extraordinary general meeting.

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 when the Chairman, in good faith, decides to allow a resolution relating purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions set out in the notice of the forthcoming annual general meeting will be voted by poll.

CONSTITUTIONAL DOCUMENTS

No significant changes were made to the Company's constitutional documents during the year ended 31 December 2018.

INVESTOR RELATIONS

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

The 2019 AGM will be held on 31 May 2019; its notice shall be sent to shareholders at least 21 clear days and 20 business days in advance.

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

An up-to-date version of the Company's Articles of Association, which has remained unchanged during the year under review and since the Listing Date, is available on the Company's website and the Stock Exchange's website.

Deloitte. 德勤

TO THE MEMBERS OF KIDSLAND INTERNATIONAL HOLDINGS LIMITED
凱知樂國際控股有限公司
(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 51 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018 was HK$614,811,000, net of the allowance for inventories of HK$14,131,000.	Our procedures in relation to assessment of net realisable value of 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 Luk Kam Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**1,954,409**	1,862,176
Cost of goods sold		**(1,104,679)**	(995,692)
Gross profit		**849,730**	866,484
Other income	7	**23,376**	25,939
Other gains and losses	8	**(14,007)**	(111)
Selling and distribution expenses		**(826,316)**	(688,491)
General and administrative expenses		**(130,577)**	(89,814)
Net impairment loss on financial assets reversed (recognised)		**3,704**	(347)
Listing expenses		**–**	(19,908)
Finance costs	9	**–**	(255)
(Loss) profit before tax		**(94,090)**	93,497
Income tax expense	10	**(6,059)**	(28,131)
(Loss) profit for the year	11	**(100,149)**	65,366
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**(24,552)**	38,477
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation of foreign operations		**4,655**	(4,905)
Other comprehensive (expense) income for the year, net of income tax		**(19,897)**	33,572
Total comprehensive (expense) income for the year		**(120,046)**	98,938
(Loss) profit for the year attributable to:			
Owners of the Company		**(97,568)**	59,352
Non-controlling interest		**(2,581)**	6,014
		(100,149)	65,366
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(116,637)**	92,772
Non-controlling interest		**(3,409)**	6,166
		(120,046)	98,938
Basic (loss) earnings per share	15	**HK(12.2) cents**	HK9.4 cents
Diluted (loss) earnings per share	15	**HK(12.2) cents**	HK9.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	70,383	59,274
Intangible assets	17	11,612	–
Deposit paid for acquisition of property, plant and equipment		229	–
Rental deposits	18	31,245	24,919
Deferred tax assets	24	9,978	9,767
		123,447	93,960
Current assets			
Inventories	19	614,811	617,690
Trade receivables	20	170,760	191,584
Other receivables, deposits and prepayments	20	120,758	124,070
Financial assets at fair value through profit or loss ("FVTPL")	21	18,795	–
Tax recoverable		944	–
Bank balances and cash	23	128,106	311,672
		1,054,174	1,245,016
LIABILITIES			
Current liabilities			
Trade payables	25	266,224	303,115
Other payables and accruals	25	76,099	101,121
Contract liabilities	26	17,655	–
Amounts due to related companies	22	2,031	38
Current tax liabilities		6,775	7,237
		368,784	411,511
Non-current liability			
Provision for reinstatement costs	25	9,314	12,070
Net current assets		685,390	833,505
Total assets less current liabilities		808,837	927,465
Net assets		799,523	915,395

	Notes	2018 HK$'000	2017 HK$'000
EQUITY			
Owners of the Company			
Share capital	27	**8,000**	8,000
Reserves		**781,881**	894,344
		789,881	902,344
Non-controlling interest	36	**9,642**	13,051
Total equity		**799,523**	915,395

The consolidated financial statements on pages 51 to 117 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Lee Ching Yiu
DIRECTOR

Hung Shing Ming
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2018

	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$'000 *(Note c, d)*	Translation reserve HK$'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 2017	–	–	–	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
Costs 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
Adjustments *(note 3)*	–	–	–	–	–	–	–	(6,788)	(6,788)	–	(6,788)
At 1 January 2018 (restated)	**8,000**	**373,924**	**(137,336)**	**5,073**	**205,725**	**(12,309)**	**3,703**	**448,776**	**895,556**	**13,051**	**908,607**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(97,568)**	**(97,568)**	**(2,581)**	**(100,149)**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(19,069)**	**–**	**–**	**(19,069)**	**(828)**	**(19,897)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(19,069)**	**–**	**(97,568)**	**(116,637)**	**(3,409)**	**(120,046)**
Recognition of share-based payment expense	**–**	**–**	**–**	**–**	**–**	**–**	**24,788**	**–**	**24,788**	**–**	**24,788**
Deemed contribution from a shareholder	**–**	**–**	**–**	**–**	**4,014**	**–**	**–**	**–**	**4,014**	**–**	**4,014**
Dividend paid *(note 14)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,840)**	**(17,840)**	**–**	**(17,840)**
Share options lapsed	**–**	**–**	**–**	**–**	**–**	**–**	**(1,985)**	**1,985**	**–**	**–**	**–**
At 31 December 2018	**8,000**	**373,924**	**(137,336)**	**5,073**	**209,739**	**(31,378)**	**26,506**	**335,353**	**789,881**	**9,642**	**799,523**

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 i. a shareholder (Lovable International Holdings), ii. related companies (Lovable Products (Hong Kong) Limited, Lovable Products Trading Limited ("Lovable Products") and Land Smart Development Limited ("Land Smart")) and iii. controlling party (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.

(d) On 27 December 2018 (the "Grant Date"), Mr. Hung Shing Ming ("Mr. Hung"), the Chief Financial Officer and subsequently appointed as an executive director of the Company on 1 January 2019, has acquired 12,000,000 shares from Mr. Lee at total consideration of HK$1 and has a right to acquire additional 12,000,000 shares from Mr. Lee on 27 December 2019 at total consideration of HK$1 subject to fulfilment of service condition, which is accounted for as deemed contribution from Mr. Lee from his contribution with shares held by Asian Glory (as defined in note 1) which is wholly owned by Mr. Lee to the Group and accumulated in capital reserve. The amount represents (i) the fair value of the 12,000,000 shares as at the Grant Date and (ii) amortisation of the additional 12,000,000 shares from the Grant Date to 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(94,090)**	93,497
Adjustments for:		
Allowance for inventories	**6,428**	2,281
Allowance for doubtful debts, net	**(3,704)**	347
Reversal of provision for reinstatement costs	**(2,210)**	(1,228)
Reversal of provision of social insurance and housing provident fund	**(22,111)**	–
Depreciation of property, plant and equipment	**46,411**	32,846
Interest income	**(708)**	(446)
Interest expense	**–**	255
Share-based payment expense	**28,802**	3,703
Net loss on disposal of property, plant and equipment	**7**	11
Net unrealised exchange loss (gain)	**13,732**	(6,992)
Operating cash flows before movements in working capital	**(27,443)**	124,274
Increase in inventories	**(32,536)**	(76,062)
Decrease (increase) in trade receivables	**7,119**	(41,448)
Increase in other receivables, deposits and prepayments	**(9,831)**	(53,939)
(Decrease) increase in trade payables	**(25,553)**	32,743
Increase (decrease) in other payables and accruals	**19,254**	(49,882)
Decrease in contract liabilities	**(5,282)**	–
Increase in amounts due to related companies	**2,031**	–
Cash used in operations	**(72,241)**	(64,314)
Hong Kong Profits Tax paid	**(398)**	(1,481)
PRC Enterprise Income Tax ("EIT") paid	**(5,401)**	(35,976)
NET CASH USED IN OPERATING ACTIVITIES	**(78,040)**	(101,771)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(53,966)**	(35,609)
Deposit paid for acquisition of property, plant and equipment	**(229)**	–
Purchase of financial assets at FVTPL	**(18,795)**	–
Purchase of trademarks	**(11,612)**	–
Interest received	**708**	446
Proceeds from disposal of property, plant and equipment	**41**	–
Repayment from a related party	**–**	101
NET CASH USED IN INVESTING ACTIVITIES	**(83,853)**	(35,062)
FINANCING ACTIVITIES		
Proceeds on issue of shares	**–**	310,001
New bank loans raised	**–**	60,000
Advances from related parties	**–**	35,087
Repayment of bank loans	**–**	(60,000)
Dividend paid	**(17,840)**	(50,000)
Issue costs paid	**–**	(15,413)
Repayments to related parties	**(38)**	(11,719)
Interest paid	**–**	(255)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(17,878)**	267,701
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(179,771)**	130,868
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**311,672**	173,365
Effect of foreign exchange rate changes	**(3,795)**	7,439
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**128,106**	311,672

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 (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 35.

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 ended 31 December 2017, 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, consolidated statement of changes in equity and consolidated statement of cash flows which include the financial performance and cash flows of the companies now comprising the Group for the year ended 31 December 2017 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 year ended 31 December 2017, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and the related interpretations.

The Group recognises revenue from the following major sources:

- Retail of toys and infant products through self-operated retail network comprising stand-alone retail shops, consignment counters in department stores and online stores; and

- Wholesale of toys and infant products to distributors, hypermarket and supermarket chains and online key accounts.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

3.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification Note (i) HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000
Other payables and accruals	101,121	(23,841)	77,280
Contract liabilities	–	23,841	23,841

Note:

(i) As at 1 January 2018, deposits received from customers of HK$22,741,000 and deferred income from loyalty programme of HK$1,100,000 previously included in other payables and accruals were reclassified to contract liabilities since the underlying products are yet to be delivered.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current liabilities				
Other payables and accruals		76,099	17,655	93,754
Contract liabilities	*a*	17,655	(17,655)	–

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

3.1 *HKFRS 15 Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	Note	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES				
Increase (decrease) in other payables and accruals		19,254	(5,282)	13,972
Decrease in contract liabilities	*a*	(5,282)	5,282	–

Note:

(a) Without the application of HKFRS 15, deposits received from customers HK$16,317,000 and deferred income from loyalty programme of HK$1,338,000, would have been reclassified from contract liabilities to other payables and accruals since the underlying products are yet to be delivered.

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

3.2 *HKFRS 9 Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

3.2 *HKFRS 9 Financial Instruments* (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Trade receivables HK$'000	Deferred tax assets HK$'000	Retained earnings HK$'000
Closing balance at 31 December 2017 – HKAS 39		191,584	9,767	455,564
Effect arising from initial application of HKFRS 9:				
Remeasurement				
Impairment under ECL model	*(a)*	(9,051)	2,263	(6,788)
Opening balance at 1 January 2018		182,533	12,030	448,776

Note:

(a) Impairment under ECL model

The Group has applied HKFRS 9 simplified approach to measure expected credit loss using a lifetime expected credit loss for trade receivables. To measure the expected credit loss, trade receivables have been grouped using a provision matrix based on past due status.

Loss allowance for other financial assets at amortised cost, mainly comprising other receivables and bank balances, are measured on 12-month expected credit loss basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$9,051,000 and deferred tax assets of HK$2,263,000 have been recognised against retained earnings. The additional loss allowance is charged against the trade receivables.

All loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Loss allowance HK'000
Reconciliation:	
At 31 December 2017	
– HKAS 39	2,457
Amount remeasured through opening retained earnings	9,051
At 1 January 2018	11,508

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Deferred tax assets	9,767	–	2,263	12,030
Trade receivables	191,584	–	(9,051)	182,533
Other payables and accruals	101,121	(23,841)	–	77,280
Contract liabilities	–	23,841	–	23,841
Reserves	894,344	–	(6,788)	887,556

New and amendments to HKFRS in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

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

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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 2018, the Group has non-cancellable operating lease commitments of HK$250,513,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$62,711,000 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information. The Group also intends to elect the practical expedient, on a lease-by-lease basis, to account for leases which the lease term ends within twelve months of the date of initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 by 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises revenue from sales of toys and infant products at a point in time when the customer obtains control of the distinct goods upon delivery of goods to customers or being directly obtained by customers at retail points.

Promotion income is recognised at a point in time when services are provided.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) (Continued)

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

A refund liability is recognised when the Group receives consideration from a customer and expects to refund some or all of that consideration. They represent the amount of consideration received that the Group does not expect to be entitled. The refund liability is updated at each reporting date to reflect changes in the estimate.

Sale with a right of return

For a sale of products with a right of return, the Group recognises all of the following:

- revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns, rebates 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.

Promotion income is recognised when services are provided.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplier rebates

Incentive rebates provided by suppliers are recognised on an accrual basis based on the expected entitlement earned up to the end of 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 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.

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 using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. 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.

Leases

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment held for use in supply of goods or services, or for administrative purposes 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.

Intangible assets

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets (Continued)

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 a 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 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.

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 expenses 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

<u>Share options granted to employees</u>

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. For share awards that vest immediately at the date of grant, the fair value of the share awards is expensed immediate to profit or loss.

When the share options are lapsed/forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 "(loss) 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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories represent merchandise stock for 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).

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (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 financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)
Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)
The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix based on the past due status.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk
In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (Continued)

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (e.g. trade receivables);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)
Financial assets are classified loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 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 (before application of HKFRS 9 on 1 January 2018)
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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)
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.

Derecognition of financial assets
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.

Financial liabilities and equity instruments

Classification as debt or 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
Financial liabilities including trade payables, other payables and amounts due to related companies are measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities
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 2018, the carrying amount of inventories was HK$614,811,000 (2017: HK$617,690,000) (net of allowance for inventories of HK$14,131,000 (2017: HK$18,638,000)).

Details of the Group's inventories are set out in notes 11 and 19.

Provision of ECL for trade receivables (upon application of HKFRS 9)

Trade receivables with significant balances and significant credit risk are assessed for ECL individually. The Group uses provision matrix to calculate ECL for the remaining trade receivables. The provision rates are based on past due status for groupings of various debtors that have similar credit risk characteristics. The provision matrix is based on the debtor's default rates. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about ECL and the Group's trade receivables is disclosed in notes 30 and 20.

Estimated allowance for trade receivables (before application of HKFRS 9)

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.

Estimated supplier rebates

The Group is entitled to supplier rebates which were recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract. The management of the Group has based on its best estimate of both expected entitlement earned up and the probability of receipt. When the expected entitlement earned up and the probability of receipt are higher or lower than expected and where events or changes in circumstances indicate that the amount of accrued supplier rebates may not be adequate or may be excessive, such difference will impact the supplier rebates receivable in the years in which such estimate has been changed. The carrying amount as at 31 December 2018 of supplier rebates was HK$22,505,000 (31 December 2017: HK$39,913,000).

6. REVENUE AND SEGMENT INFORMATION

Revenue from sales of toys and infant products is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer specific location or being directly obtained by customers at retail points. Following delivery, the customer has full discretion over the manner of usage and consumption the goods, has the primary responsibility when on selling the goods and bears the risk of obsolescence and loss in relation to the goods.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur.

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 toys; 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 2018

	Sales of toys HK$'000	Sales of infant products HK$'000	Total HK$'000
Revenue	1,856,057	98,352	1,954,409
Segment gross profit	811,834	37,896	849,730
Segment profit	786,822	40,527	827,349
Unallocated income			7,414
Unallocated expenses			(918,550)
Unallocated other gains and losses			(10,303)
Loss before tax			(94,090)

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment Revenues and Results (Continued)

For the year ended 31 December 2017

	Sales of toys 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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the (loss) profit before tax (incurred) earned by each segment without allocation of certain 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 2018

	Sales of toys HK$'000	Sales of infant products HK$'000	Total HK$'000
Segment assets	**526,436**	**88,375**	**614,811**
Unallocated assets			**562,810**
Consolidated total assets			**1,177,621**
Segment liabilities	**252,569**	**13,655**	**266,224**
Unallocated liabilities			**111,874**
Consolidated total liabilities			**378,098**

As at 31 December 2017

	Sales of toys 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

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.

Sales and Distribution Channels

The Group has a diverse retail network and an extensive distribution network. The Group sells toys and infant products through (i) self-operated retail channels; and (ii) wholesale channels.

The following table sets forth a breakdown of revenue by the self-operated retail and wholesale channels for the periods indicated:

For the years ended 31 December

	2018 **HK$'000**	2017 HK$'000
Self-operated retail channels		
– Retail shops	**731,990**	585,203
– Consignment counters	**615,544**	580,465
– Online stores	**99,176**	90,271
	1,446,710	1,255,939
Wholesale channels		
– Online/offline wholesale		
– Distributors	**382,002**	499,916
– Hypermarket and supermarket chains	**39,550**	48,706
– Online key accounts	**86,147**	57,615
	507,699	606,237
Total	**1,954,409**	1,862,176

6. REVENUE AND SEGMENT INFORMATION (Continued)

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*	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
PRC	**1,803,805**	1,768,212	**55,136**	45,000
Hong Kong	**150,604**	93,964	**27,088**	14,274
	1,954,409	1,862,176	**82,224**	59,274

* 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

	2018 HK$'000	2017 HK$'000
Interest income	**708**	446
Promotion income from brand owners	**15,962**	19,106
Government grants *(Note)*	**4,619**	4,617
Sundry income	**2,087**	1,770
	23,376	25,939

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

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Net exchange loss	**(15,107)**	(1,028)
Net loss on disposal of property, plant and equipment	**(7)**	(11)
Reversal of provision for reinstatement costs	**2,210**	1,228
Others	**(1,103)**	(300)
	(14,007)	(111)

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**–**	255

10. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax charge		
Hong Kong Profits Tax	**2,200**	707
PRC withholding taxes	**–**	3,146
PRC EIT	**2,359**	23,109
	4,559	26,962
Overprovision in prior years		
Hong Kong Profits Tax	**(71)**	(343)
Deferred tax *(note 24)*		
Current year charge	**1,571**	1,512
	6,059	28,131

10. INCOME TAX EXPENSE (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

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 (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
(Loss) profit before tax	**(94,090)**	93,497
Tax at income tax rate of 25%	**(23,522)**	23,374
Tax effect of expenses not deductible for tax purposes	**17,926**	10,838
Tax effect of income not taxable for tax purposes	**(8,610)**	(545)
Overprovision in prior years	**(71)**	(343)
Tax effect of tax losses not recognised	**21,214**	1,194
Tax effect of deductible temporary differences not recognised	**116**	–
PRC withholding taxes	**–**	3,146
Tax effect of utilisation of tax losses previously not recognised	**–**	(690)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(994)**	(8,843)
Income tax expense	**6,059**	28,131

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

11. (LOSS) PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
(Loss) profit for the year is arrived at after charging (crediting):		
Directors' remuneration *(note 12)*	**16,839**	5,899
Other staff costs	**110,987**	127,970
Retirement benefit schemes contributions for other staff	**25,909**	30,781
Share-based payments for other staff	**21,385**	2,650
Total staff costs	**175,120**	167,300
Auditor's remuneration	**2,330**	2,380
Reversals of allowance for inventories, net (included in cost of sales)	**(2,115)**	(8,270)
Reversal of provision for social insurance and housing provident fund *(note 33)*	**(22,111)**	–
Depreciation of property, plant and equipment	**46,411**	32,846
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**24,554**	19,543
– rented premises of office (included in general and administrative expenses)	**16,324**	13,170
– retail shops (included in selling and distribution expenses) *(note i)*	**143,254**	119,691
– consignment counters (included in selling and distribution expenses) *(note i)*	**4,760**	5,757
	188,892	158,161

Notes:

(i) The amounts include contingent rents of HK$27,053,000 (2017: HK$27,743,000).

(ii) For the years ended 31 December 2018 and 2017, 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.

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 is also the 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. Dr. Lo resigned on 31 December 2018. Details of the emoluments paid or payable to the directors and the 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 2018						
Executive directors:						
Mr. Lee	**100**	**–**	**–**	**2,564**	**–**	**2,664**
Dr. Lo	**100**	**3,900**	**935**	**1,327**	**496**	**6,758**
Ms. Zhong Mei	**100**	**2,045**	**563**	**2,564**	**143**	**5,415**
Non-executive directors:						
Mr. Du Ping	**100**	**–**	**–**	**962**	**–**	**1,062**
Ms. Duan Lanchun	**100**	**–**	**–**	**–**	**–**	**100**
Independent non-executive directors:						
Mr. Cheng Yuk Wo	**280**	**–**	**–**	**–**	**–**	**280**
Dr. Lam Lee G.	**280**	**–**	**–**	**–**	**–**	**280**
Mr. Huang Lester Garson	**280**	**–**	**–**	**–**	**–**	**280**
	1,340	**5,945**	**1,498**	**7,417**	**639**	**16,839**
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

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, three (2017: two) directors of the Company whose emoluments are included in the disclosures in note 12. The emoluments of the remaining two (2017: three) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	**2,518**	2,974
Discretionary bonuses	**310**	372
Share-based payments	**4,828**	351
Retirement benefit schemes contributions	**346**	322
	8,002	4,019

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
HK$1,000,001 to HK$1,500,000	**–**	3
HK$2,000,001 to HK$2,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	–

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.

14. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised and paid as distribution during the year:		
Special dividend to Lovable International Holdings	–	50,000
2017 Final dividend – HK 2.23 cents per share	**17,840**	–
	17,840	50,000

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.

No dividend was proposed by the directors of the Company during 2018, nor has any dividend been proposed since the end of the reporting period.

15. (LOSS) EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
(Loss) earnings		
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of basic (loss) earnings per share	**(97,568)**	59,352
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of diluted (loss) earnings per share	**(97,568)**	59,352

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic (loss) earnings per share	**800,000**	628,493
Effect of dilutive potential ordinary shares in respect of outstanding share options	–	265
Weighted average number of ordinary shares for the purpose of calculation of diluted (loss) earnings per share	**800,000**	628,758

15. (LOSS) EARNINGS PER SHARE (Continued)

The computation of diluted loss per share for the year ended 31 December 2018 does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

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 option to 31 December 2017.

The number of ordinary shares for the purpose of calculation of basic earnings per share for the year ended 31 December 2017 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 27(e).

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 2017	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
Exchange differences	(7,356)	(1,198)	(20)	(8,574)
Additions	53,763	4,907	–	58,670
Write-off/disposal	(2,211)	(2,437)	–	(4,648)
At 31 December 2018	**182,779**	**28,299**	**417**	**211,495**
ACCUMULATED DEPRECIATION				
At 1 January 2017	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
Exchange differences	(5,198)	(2,255)	(19)	(7,472)
Charge for the year	41,193	5,111	107	46,411
Write-off/disposal	(2,211)	(2,389)	–	(4,600)
At 31 December 2018	**121,277**	**19,422**	**413**	**141,112**
CARRYING VALUES				
At 31 December 2018	**61,502**	**8,877**	**4**	**70,383**
At 31 December 2017	51,090	8,072	112	59,274

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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. INTANGIBLE ASSETS

In June 2018, the Company entered into an agreement with an independent third party to acquire trademarks for toys at a cash consideration of European dollar ("EUR") 1,200,000 (equivalent to HK$11,612,000). The acquisition was completed in September 2018.

The trademarks are renewable at minimal cost. The directors of the Company are of the opinion that the Group will renew the trademarks continuously at minimal cost and has the ability to do so.

The trademarks are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that it may be impaired.

18. 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.

19. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Merchandise stock for resale	**614,811**	617,690

20. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Trade receivables	**178,170**	194,041
Less: Loss allowance	**(7,410)**	(2,457)
	170,760	191,584
Other receivables, deposits and prepayments		
– Deposits	**39,492**	34,853
– Prepayments for purchase of merchandise stock for resale and expenses	**28,178**	22,086
– Rebate receivables from suppliers	**22,505**	39,913
– Promotion income receivable from brand owners	**3,628**	8,536
– Other taxes recoverable	**19,617**	13,077
– Others	**7,338**	5,605
	120,758	124,070

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 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.

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**136,333**	151,141
31 to 60 days	**22,152**	18,027
61 to 90 days	**4,402**	9,939
91 to 180 days	**7,873**	8,588
181 to 365 days	**–**	3,889
	170,760	191,584

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

For sales to retailers, distribution customers and hypermarket 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.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$25,702,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. Out of the past due balances, HK$6,358,000 has been past due 90 days or more and is not considered as in default. 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 related repayment history. The Group does not hold any collateral over these balances.

As at 31 December 2017, trade receivables of HK$136,551,000 that are neither past due nor impaired had good credit quality with reference to the track record 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.

As at 31 December 2017, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$55,033,000 which are past due as at the reporting date for which the Group has not provided for impairment loss.

	2017 HK$'000
Within 30 days	17,982
31 to 60 days	15,188
61 to 90 days	9,764
91 to 180 days	8,210
181 days to 365 days	3,889
	55,033

Movements in the Allowance for Doubtful Debts

	2017 HK$'000
Balance at beginning of the year	1,958
Impairment loss recognised	347
Exchange adjustments	152
Balance at end of the year	2,457

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 30(b).

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000
Financial assets at FVTPL:	
– Unlisted equity securities	**18,795**
Analysed for reporting purposes as:	
– Current assets	**18,795**

The amount represented an investment in 1.5% interest in equity of an unlisted company incorporated in the PRC. In December 2018, instead of the original plan of holding the investment for capital appreciation and dividend, the management has changed the intention to sell it for cash to invest in other projects, and therefore the Group has signed a share transfer agreement to dispose of the entire equity investment back to the original shareholder of the investee company at a consideration of HK$18,795,000. The transaction is not completed at the end of current year.

22. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are set out below:

Amounts due to related companies	**Nature of balance**	**2018 HK$'000**	2017 HK$'000
Land Smart	Trade *(Note a)*	**1,740**	–
Lovable Products	Non-trade	**–**	38
Captcha Media Limited	Trade *(Note b)*	**291**	–
		2,031	38

Land Smart and Lovable Products are controlled by Mr. Lee. The amounts are unsecured, interest-free and repayable on demand.

Captcha Media Limited is controlled by Dr. Lo. The amounts are repayable in one month.

Note:

(a) The ageing analysis of this amount, based on invoice date, is within one year.

(b) The ageing analysis of this amount, based on invoice date, is within 30 days.

23. BANK BALANCES AND CASH

As at 31 December 2018, the Group's bank balances carry interest at prevailing market rates ranging from 0.25% to 0.3% per annum (2017: 0.001% to 0.5% per annum).

24. DEFERRED TAX ASSETS

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

	Property, plant and equipment HK$'000	Unrealised profit on inventories HK$'000	Provision for doubtful debts/ECL provision HK$'000	Allowance for inventories HK$'000	Provision for customer loyalty programme HK$'000	Tax losses HK$'000	Provision for refund liabilities HK$'000	Total HK$'000
At 1 January 2017	(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
Adjustment *(note 3)*	–	–	2,263	–	–	–	–	2,263
Credit (charge) to profit or loss for the year	386	(190)	(925)	(957)	75	–	40	(1,571)
Exchange adjustments	–	(184)	(100)	(179)	(16)	–	(2)	(481)
At 31 December 2018	**458**	**3,771**	**1,853**	**3,524**	**334**	**–**	**38**	**9,978**

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 HK$256,822,000 (2017: HK$343,000,000) 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 be reversed in the foreseeable future.

At 31 December 2018, the Group had unused tax losses of HK$97,119,000 (2017: HK$14,105,000) available to offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years.

24. DEFERRED TAX ASSETS (Continued)

	2018 HK$'000	2017 HK$'000
2018	–	1,843
2019	1,185	1,185
2020	3,682	3,682
2021	2,367	2,367
2022	5,028	5,028
2023	84,857	–
	97,119	14,105

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Trade payables	266,224	303,115
Other payables and accruals		
– Deposits received from customers	–	22,741
– Accrued expenses	28,251	28,932
– Provision for retirement benefit costs	13,043	35,521
– Provision for reinstatement costs	21,364	19,782
– Other taxes payable	16,524	3,103
– Others	6,231	3,112
	85,413	113,191
Less: Provision for reinstatement costs presented as non-current liability	(9,314)	(12,070)
Other payables and accruals presented as current liabilities	76,099	101,121

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

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

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**145,753**	192,790
31 to 60 days	**88,511**	84,199
61 to 90 days	**27,136**	23,606
Over 90 days	**4,824**	2,520
	266,224	303,115

Movements in the Provision for Reinstatement Costs

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**19,782**	15,142
Provision for the year	**4,704**	4,727
Reversal for the year	**(2,210)**	(1,228)
Exchange adjustments	**(912)**	1,141
Balance at end of the year	**21,364**	19,782

26. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018 HK$'000
Deposits received from customers	**16,317**	22,741
Customer loyalty programme	**1,338**	1,100
	17,655	23,841

All sales of toys and infant products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the current year, revenue of HK$23,841,000 was recognised that was included in the contract liabilities balance at the beginning of the year.

27. 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 2017	*(d)*	49,962,000,000	499,620
At 31 December 2017 and 2018		**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 and 2018		**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, 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 in 2017 rank pari passu with the existing shares in all respects.

28. SHARE BASED PAYMENTS

(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 both years 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	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2018
Directors								
Tranche 1	25 October 2017 to 24 October 2018	5,400,000	–	–	5,400,000	(1,600,000)	–	3,800,000
Tranche 2	25 October 2017 to 24 October 2019	4,050,000	–	–	4,050,000	(1,200,000)	–	2,850,000
Tranche 3	25 October 2017 to 24 October 2020	4,050,000	–	–	4,050,000	(1,200,000)	–	2,850,000
		13,500,000	–	–	13,500,000	(4,000,000)	–	9,500,000
Employees								
Tranche 1	25 October 2017 to 24 October 2018	13,600,000	–	–	13,600,000	(920,000)	–	12,680,000
Tranche 2	25 October 2017 to 24 October 2019	10,200,000	–	–	10,200,000	(690,000)	–	9,510,000
Tranche 3	25 October 2017 to 24 October 2020	10,200,000	–	–	10,200,000	(690,000)	–	9,510,000
		34,000,000	–	–	34,000,000	(2,300,000)	–	31,700,000
		47,500,000	–	–	47,500,000	(6,300,000)	–	41,200,000
Weighted average exercise price (HK$)		0.8	0.8	0.8	0.8	0.8	0.8	0.8

28. SHARE BASED PAYMENTS (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 periods 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 behavioural considerations.

The Group recognised a total expense of HK$24,788,000 during the year ended 31 December 2018 (2017: HK$3,703,000) in relation to the Pre-IPO share options granted by the Company.

28. SHARE BASED PAYMENTS (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 Post-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 or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including independent non-executive directors) of the Company or any of its subsidiaries, advisors, consultants, suppliers, customers, distributors and such other persons who in the opinion of the directors of the Company will contribute or have contributed to the Company or any of its subsidiaries.

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 31 December 2018, the Post-IPO Share Option Scheme had a remaining life of more than 8 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 of the Company shall abstain from voting in favour.

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 directors of the Company may specify any such minimum period.

Unless otherwise terminated by the directors of the Company 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.

28. SHARE BASED PAYMENTS (Continued)

(ii) The Post-IPO Share Option Scheme (Continued)

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 (10 November 2017) unless shareholders' approval has been obtained.

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

(iii) Share awards

On 27 December 2018, Mr. Hung acquired 12,000,000 shares from Mr. Lee at total consideration of HK$1 and has a right to acquire additional 12,000,000 shares from Mr. Lee on 27 December 2019 at total consideration of HK$1 subject to fulfilment of certain service condition.

The fair value of the shares at the grant date was HK$7,920,000, and is measured by the trading share price of the Company of the closing of the grant date.

29. 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 companies disclosed in note 22, 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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL	**18,795**	–
Amortised cost	**380,569**	–
Loans and receivables (including cash and cash equivalents)	**–**	577,169
Financial liabilities		
Amortised cost	**274,486**	306,265

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, deposits, trade receivables, other receivables, bank balances and cash, trade payables, other payables and amounts due to related companies. 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	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
EUR	**16,054**	962	**850**	1,139
Japanese Yen ("YEN")	**34**	34	**–**	–
RMB	**614**	464	**–**	–

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 USD, and the exchange exposure is not significant.

30. 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 HK$, 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 a decrease (an increase) in loss for the year (2017: 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.

	2018 **HK$'000**	2017 HK$'000
EUR	**570**	(7)
YEN	**1**	1
RMB	**23**	17

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.

30. 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:

	2018	2017
Amount due from the largest debtor as a percentage to total trade receivables	11%	11%
Total amount due from the five largest debtors as a percentage to total trade receivables	32%	27%

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 a 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 bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Trade receivables	*20*	N/A	Note 1	Lifetime ECL (provision matrix)	174,921
			Loss	Credit-impaired	3,249
Other receivables	*20*	N/A	Note 2	12m ECL	33,471
Bank balances	*23*	Low risk	N/A	12m ECL	117,880

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Notes:

1. The Group has applied HKFRS 9 simplified approach to measure expected credit loss using a lifetime expected credit loss for trade receivables. To measure the expected credit loss, trade receivables have been grouped based on the past due status.

2. For the purposes of internal credit risk management, the Group uses ageing analysis to assess whether credit risk has increased significantly since initial recognition.

Provision matrix

During the year ended 31 December 2018, the Group reversed HK$4,643,000 impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of HK$939,000 were made on debtors with credit impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	2,457	2,457
Adjustment upon application of HKFRS 9	9,051	–	9,051
As at 1 January 2018 – As restated	9,051	2,457	11,508
Impairment loss (reversed) recognised	(4,643)	939	(3,704)
Exchange adjustment	(247)	(147)	(394)
As at 31 December 2018	4,161	3,249	7,410

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.

30. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement of financial instruments

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Management of the Group is responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities is disclosed below.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	31 December 2018 HK$'000	31 December 2017 HK$'000		
Financial assets at FVTPL				
Unlisted equity securities	**18,795**	–	Level 2	Agreed disposal price

There were no transfers between Levels 1, 2 and 3 both the years.

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.

31. OPERATING LEASES

As at the end of reporting period, 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:

	2018 HK$'000	2017 HK$'000
Within one year	**121,042**	131,490
In the second to fifth year, inclusive	**129,141**	122,508
Over five years	**–**	54
	250,183	254,052

Apart from the above operating lease commitments, the Group had commitments for future minimum lease payment under non-cancellable operating leases in respect of leased offices with related companies as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**330**	2,484
In the second to fifth year, inclusive	**–**	333
	330	2,817

Leases are negotiated with monthly rental for a range of one to five and a half years (2017: one to five and a half 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.

32. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**923**	159

33. 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 per month 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 year ended 31 December 2017, 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 made 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 shall be responsible for making contribution to, and bear the costs of, the social insurance fund and housing provident fund for such sales staff. As at 31 December 2017, full provision of HK$35,070,000 was made in other payables.

In accordance to PRC regulation《勞動保障監察條例》, the maximum years for chasing the underprovided social insurance and housing provident fund are 2 years and once the aforementioned amount was paid, the regulator will no longer chase for further outstanding balance in previous period, nor accept any complaint regarding to the outstanding social insurance balance of the relevant entities. Therefore, the provision of HK$22,111,000 was reversed in 2018.

At 31 December 2018, the Group had made aggregate provisions of HK$12,150,000 in respect of the estimated shortfall in social insurance plans and housing provident fund contributions in prior years and recorded in other payables.

The total cost recognised in selling and distribution expenses and general and administrative expenses of HK$26,548,000 (2017: HK$31,018,000) represents contributions paid or payable to the above schemes by the Group for the year ended 31 December 2018. As at 31 December 2018 and 2017, 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.

34. RELATED PARTY DISCLOSURES

(a) Transactions

Name of related companies	Nature of transactions	2018 HK$'000	2017 HK$'000
Captcha Media Limited *(Note i)*	Marketing service fee	**2,706**	2,615
Land Smart *(Note ii)*	Rental expenses	**1,806**	1,760
Politor Limited *(Note ii)*	Rental expenses	**660**	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 companies are set out in note 22.

(c) Compensation of key management personnel

The directors, chief executive and 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.

35. PARTICULARS OF SUBSIDIARIES

As at 31 December 2018, the Company has direct and indirect shareholdings/equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/ equity interest attributable to the Group 2018 %	2017 %	Principal activities
Directly held:					
Kidsland Holdings	The BVI	USD1	**100**	100	Investment holding
Silverkids	The BVI	USD100	**58**	58	Investment holding

35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/ equity interest attributable to the Group 2018 %	2017 %	Principal activities
Indirectly held:					
ANB (HK) Limited	Hong Kong	HK$1,000	100	–	Investment in trademarks
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
Prince Asia Limited	Hong Kong	HK$1	58	58	Investment holding
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
銀樂寶(天津)商貿有限公司	The PRC	RMB17,000,000	58	58	Trading and sale of toys
凱知樂貿易(天津)有限公司	The PRC	RMB100,000,000	100	–	Trading and sale of toys

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

36. NON-CONTROLLING INTEREST

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

	31/12/2018 HK$'000	31/12/2017 HK$'000
Current assets	**82,889**	88,993
Non-current assets	**1**	2
Current liabilities	**59,934**	57,921
Equity attributable to owners of the Company	**13,314**	18,023
Non-controlling interest of the Group	**9,642**	13,051

	Year ended 31 December	
	2018 HK$'000	2017 HK$'000
Revenue	**182,431**	132,033
(Loss) profit for the year	**(6,146)**	14,318
Other comprehensive (expense) income for the year	**(1,972)**	364
	(8,118)	14,682
(Loss) profit attributable to owners of the Company	**(3,565)**	8,304
(Loss) profit attributable to non-controlling interest	**(2,581)**	6,014
Dividends paid to non-controlling interest	**–**	–
Net cash (outflow) inflow from operating activities	**(877)**	8,926
Net cash inflow from investing activities	**26**	–
Net cash inflow (outflow) from financing activities	**8**	(10,781)
Net cash outflow	**(843)**	(1,855)

37. 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 (used in) financing activities.

	Accrued issue costs HK$'000	Interest payable HK$'000	Amounts due to related companies 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
Dividend declared	–	–	–	17,840	17,840
Financing cash flows	–	–	(38)	(17,840)	(17,878)
Operating cash flows	–	–	2,031	–	2,031
At 31 December 2018	**–**	**–**	**2,031**	**–**	**2,031**

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**137,336**	137,336
Amounts due from subsidiaries	**213,165**	–
	350,501	137,336
CURRENT ASSETS		
Deposits and prepayments	**347**	165
Financial assets at FVTPL	**18,795**	–
Amounts due from subsidiaries	**18,578**	87,657
Bank balances	**161**	194,702
	37,881	282,524
CURRENT LIABILITY		
Other payables and accrued expenses	**3,033**	2,182
NET CURRENT ASSETS	**34,848**	280,342
NET ASSETS	**385,349**	417,678
CAPITAL AND RESERVES		
Share capital	**8,000**	8,000
Reserves *(Note)*	**377,349**	409,678
	385,349	417,678

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

Note:

	Share premium HK$'000	Share option reserve HK$'000	Retained earnings (accumulated losses) HK$'000	Total HK$'000
At 26 April 2017 (date of incorporation)	–	–	–	–
Profit and total comprehensive income for the year	–	–	32,051	32,051
Effect of the Reorganisation	137,336	–	–	137,336
Capitalisation issue	(5,999)	–	–	(5,999)
Issue of shares	308,000	–	–	308,000
Costs of issuing new shares	(15,413)	–	–	(15,413)
Dividend paid	(50,000)	–	–	(50,000)
Recognition of share-based payment expense	–	3,703	–	3,703
At 31 December 2017	373,924	3,703	32,051	409,678
Loss and total comprehensive expense for the year	–	–	(39,277)	(39,277)
Dividend paid	–	–	(17,840)	(17,840)
Recognition of share-based payment expense	–	24,788	–	24,788
Share options lapsed	–	(1,985)	1,985	–
At 31 December 2018	**373,924**	**26,506**	**(23,081)**	**377,349**

39. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
REVENUE	1,324,649	1,561,291	1,638,374	1,862,176	**1,954,409**
PROFIT (LOSS) BEFORE TAX	127,454	133,490	117,644	93,497	**(94,090)**
INCOME TAX EXPENSE	(26,807)	(24,348)	(27,658)	(28,131)	**(6,059)**
PROFIT (LOSS) FOR THE YEAR	100,647	109,142	89,986	65,366	**(100,149)**
Profit (loss) for the year attributable to:					
Owners of the Company	96,238	106,559	89,200	59,352	**(97,568)**
Non-controlling interest	4,409	2,583	786	6,014	**(2,581)**
	100,647	109,142	89,986	65,366	**(100,149)**

ASSETS AND LIABILITIES

	At 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
TOTAL ASSETS	757,722	834,323	967,537	1,338,976	**1,177,621**
TOTAL LIABILITIES	(541,477)	(531,485)	(605,096)	(423,581)	**(378,098)**
NET ASSETS	216,245	302,838	362,441	915,395	**799,523**
NET ASSETS ATTRIBUTABLE TO					
OWNERS OF THE COMPANY	211,910	296,275	355,556	902,344	**789,881**
NON-CONTROLLING INTEREST	4,335	6,563	6,885	13,051	**9,642**
	216,245	302,838	362,441	915,395	**799,523**

The results and assets and liabilities of the Group for 2014, 2015 and 2016 are extracted from the Company's prospectus dated 31 October 2017.