

KIDDIELAND

Kiddieland International Limited

童園國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3830

GLOBAL OFFERING



Sole Sponsor



華高和昇財務顧問有限公司

WAG Worldsec Corporate Finance Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



華金證券(國際)有限公司

Huajin Securities (International) Limited

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 25,000,000 Shares (subject to reallocation)
Number of International Offer Shares	: 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	: Not more than HK\$0.50 per Offer Share plus brokerage fee of 1.0%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.10 per Share
Stock Code	: 3830

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or about Friday, 15 September 2017 and, in any event, not later than Wednesday, 20 September 2017. The Offer Price will be not more than HK\$0.50 per Offer Share and is currently expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay on application, the maximum Offer Price of HK\$0.50 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$0.50 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Hong Kong Public Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on our website at www.kiddieland.com.hk and the website of the Stock Exchange at www.hkexnews.hk not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Wednesday, 20 September 2017 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Please also see the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to qualified institutional buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

11 September 2017

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.kiddieland.com.hk.

Hong Kong Public Offering commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Monday, 11 September 2017
Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at www.hkeipo.hk ⁽²⁾	11:30 a.m. on Thursday, 14 September 2017
Application lists for the Hong Kong Public Offering open ⁽³⁾	11:45 a.m. on Thursday, 14 September 2017
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Thursday, 14 September 2017
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Thursday, 14 September 2017
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 14 September 2017
Application lists of the Hong Kong Public Offering close	12:00 noon on Thursday, 14 September 2017
Expected Price Determination Date ⁽⁵⁾	Friday, 15 September 2017
Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Offer Shares to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.kiddieland.com.hk ⁽⁶⁾ on or before	Wednesday, 20 September 2017
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.kiddieland.com.hk ⁽⁶⁾ (See the section headed "How to apply for the Hong Kong Offer Shares — 11. Publication of results") from	Wednesday, 20 September 2017

EXPECTED TIMETABLE⁽¹⁾

Results of allocations for the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result with a “search by Identification Number or Business Registration Number” function Wednesday, 20 September 2017

Despatch/Collection of share certificates (if applicable) in respect of wholly or partially successful applications on or before^{(7)&(8)} Wednesday, 20 September 2017

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications on^{(8)&(9)} Wednesday, 20 September 2017

Dealings in Shares on the Stock Exchange to commence on Thursday, 21 September 2017

The application for the Hong Kong Offer Shares will commence on Monday, 11 September 2017 through Thursday, 14 September 2017. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 20 September 2017. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 21 September 2017.

Notes:

- (1) All times and dates refer to Hong Kong local time, except otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 14 September 2017, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists”.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined on Friday, 15 September 2017, and in any event, not later than Wednesday, 20 September 2017. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, on behalf of the Underwriters, and our Company, the Global Offering will not proceed and will lapse.
- (6) Information on our website at www.kiddieland.com.hk does not form part of this prospectus.
- (7) Share certificates for the Hong Kong Offer Shares are expected to be issued on Wednesday, 20 September 2017, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

- (8) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 September 2017. Applicants being individuals who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. Further details are set out in the sections headed "How to apply for the Hong Kong Offer Shares — 13. Refund of application monies" and "How to apply for the Hong Kong Offer Shares — 14. Dispatch/Collection of share certificates and refund monies". Applicants who have applied on **YELLOW** Application Forms may collect their refund cheque (if applicable) in person but may not collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to apply for the Hong Kong Offer Shares — 14. Despatch/Collection of share certificates and refund monies" in this prospectus.
- (9) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus.

Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

You should read carefully the sections headed "Underwriting", "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund monies and share certificates.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorised by our Company, any of the Sole Sponsor, any of the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.kiddieland.com.hk, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview for the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the leading toy manufacturers and exporters principally engaged in the design, development, manufacture and sale of a diverse portfolio of outdoor-and-sports toy products and infant-and-preschool toy products. Our products are mostly co-branded with licensed rights of entertainment properties of popular or up-and-coming characters featured in animated television series or motion pictures granted by major entertainment properties licensors. We also manufacture and sell our products under our **KIDDIELAND** brand as well as under private labels on an ODM basis for our customers. According to the CIC Report, we ranked second in terms of total value of outdoor-and-sports toy products exported in the Guangdong Province, and ranked seventh in terms of total value of outdoor-and-sports toy products exported in the PRC in 2016.

We commenced our business in 1998. Our head office is based in Hong Kong and our production facilities are located in Dongguan, Guangdong Province, the PRC. Since our inception, and during the Track Record Period and up to the Latest Practicable Date, we have been launching new products across our diverse portfolio of outdoor-and-sports as well as infant-and-preschool toy products in order to satisfy market demand and cater for our customers’ needs according to market trend and customer feedback. While we focus on the design, development, manufacture and sales of our toy products, we adopt a global licensing strategy to acquire licensed rights from major entertainment properties licensors and most of our products are co-branded with such licensed entertainment properties so as to leverage on the marketing benefits of the internationally renowned entertainment properties to expediently gain consumer awareness, recognition of authenticity and establish credibility and market acceptance from the mass market. Throughout the years of our operations, we have developed relationships with a number of major entertainment properties licensors, and the licensing arrangements which we entered into covered territories on a worldwide basis. In less developed markets, such as Russia, Poland and Ukraine, we focus on our **KIDDIELAND** branded products and to a lesser extent our co-branded products and our customers’ private labels. As at the Latest Practicable Date, we have been granted licensed rights of entertainment properties and intellectual properties under 11 licensing agreements with licensors such as Disney, Sesame Workshop, VIMN and an automobile manufacturer covering a variety of outdoor-and-sports toy products as well as infant-and-preschool toy products. We possess strong and vertically integrated manufacturing capability which allows us to conduct most of the manufacturing processes in-house.

We principally sell our products to different types of retailers, such as toy specialty chain stores, multinational mass market retailers, local retailers, wholesalers or distributors as well as merchandising and sourcing firms. We have engaged sales representatives servicing our customers located in various countries, including U.S., Japan, Taiwan, Korea, Australia, UAE, and countries in Latin America. We principally sell our products on an outright basis to our customers worldwide and, in some cases, we have entered into distribution agreements with certain of our customers.

For FY2015, FY2016 and FY2017, we recorded revenue of HK\$521.0 million, HK\$445.8 million and HK\$367.1 million, respectively, and our net profit was HK\$36.5 million, HK\$34.0 million and HK\$22.6 million, respectively.

We have established relationships with major entertainment properties licensors and we believe such relationships have fortified our market presence in the toy manufacturing industry in the overseas market. As at 30 April 2015, 2016 and 2017, there were seven, nine and ten subsisting licensing agreements entered into between us and major entertainment properties licensors, respectively and the revenue of co-branded products accounted for 71.6%, 73.4% and 73.8% of our total revenue, respectively. Summarised below is our licensing agreements in relation to major entertainment properties and licensed properties which were subsisting as at the Latest Practicable Date:

SUMMARY

Licensing Agreements	Product categories	Expiry Date
Licensing Agreement A	Various types of outdoor-and-sports toy products	31 December 2017 ^(Note)
Licensing Agreement B	Various types of outdoor-and-sports toy products and infant-and-preschool toy products	31 March 2019
Licensing Agreement C	Various types of outdoor-and-sports toy products	31 March 2018
Licensing Agreement D	Ride-ons	31 December 2017 ^(Note)
Licensing Agreement E	Ride-ons and others	31 March 2019
Licensing Agreement F	Various types of outdoor-and-sports toy products	31 December 2018
Licensing Agreement G	Various types of outdoor-and-sports toy products	30 June 2018
Licensing Agreement H	Various types of infant-and-preschool toy products	31 December 2018
Licensing Agreement I	Various types of outdoor-and-sports toy products	31 December 2019
Licensing Agreement J	Various types of infant-and-preschool toy products	31 December 2018
Licensing Agreement K	Various types of outdoor-and-sports toy products	31 December 2019

Notes: We are in the process of negotiation with the relevant licensors for the renewal of the relevant licensing agreements.

We have also leveraged on our in-depth knowledge of and experience in the production of outdoor-and-sports toy products and infant-and-preschool toy products designed for young infants and toddlers, which we believe cannot be easily replaced by high-tech gadgets due to child developmental needs for motor and sensory skills. We believe our leading market position stems from our unique product strategies in developing innovative products which are capable of addressing the rapidly evolving toy market. For details of the major terms of the licensing arrangements with our licensors, please refer to the section headed “Business — Our product brands and licensing arrangement — Licensing arrangement with licensors” in this prospectus.

SALES AND MARKETING

We have developed a global sales network. During the Track Record Period, we sold our products to over 70 countries across six continents. The following table sets out our revenue breakdown by geographical regions during the Track Record Period:

	2015		For the year ended 30 April 2016		2017	
	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %
North America ⁽¹⁾	249,186	47.8	223,905	50.2	165,074	45.0
Europe ⁽²⁾	197,559	37.9	161,594	36.3	158,960	43.3
Asia	56,114	10.8	45,732	10.3	28,627	7.8
South America	10,884	2.1	6,975	1.5	6,957	1.9
Oceania	3,688	0.7	5,799	1.3	6,585	1.8
Africa	3,535	0.7	1,751	0.4	943	0.2
Total	520,966	100.0	445,756	100.0	367,146	100.0

Notes:

- Sales to the U.S. accounted for 40.9%, 44.1% and 40.1% of our total revenue for the FY2015, FY2016 and FY2017, respectively.

SUMMARY

2. Sales to the U.K. accounted for 8.1%, 8.8% and 9.1% of our total revenue for FY2015, FY2016 and FY2017, respectively.

Our sales were mainly made on an outright sales basis, which contributed towards 99.0%, 98.9% and 99.8% of our total revenue for FY2015, FY2016 and FY2017, respectively. During the Track Record Period, we also engaged in consignment sales and retail sales in the PRC, which contributed an insignificant portion of revenue to our Group and we have ceased such operations in the PRC as at the Latest Practicable Date.

OUR CUSTOMERS, SUPPLIERS AND SERVICE PROVIDERS

Our customers make purchases from us mainly on an outright basis. Our top five customers during the Track Record Period included toy specialty chain stores, multinational mass market retailers and local retailers. We have established three to 15 years of business relationship with these customers. For FY2015, FY2016 and FY2017, revenue generated from our top five customers in aggregate accounted for 36.1%, 39.3% and 38.4% of our total revenue, respectively and revenue generated from our largest customer accounted for 16.9%, 19.8% and 17.5% of our total revenue, respectively. Our top five customers during the Track Record Period were Independent Third Parties.

We sourced raw materials from third-party suppliers located in the PRC, Taiwan and Hong Kong. Our principal raw materials include plastic resin, metal parts, electronic parts, printed box, pigment and chemical materials. For FY2015, FY2016 and FY2017, our total cost of inventories represented 46.7%, 42.6% and 38.5% of our cost of sales, respectively. We have a set of criteria in the selection of suppliers and we require our suppliers to tender their offers in a competitive bidding process. For FY2015, FY2016 and FY2017, we purchased from 133, 128 and 119 suppliers, respectively. Our purchases from top five suppliers for FY2015, FY2016 and FY2017 accounted for 42.7%, 36.0% and 41.2% of our total purchases, respectively and our purchases from the largest supplier accounted for 14.3%, 10.7% and 20.4% of our total purchases for the corresponding periods, respectively.

For certain steps of our production process, such as sewing, spray painting, bonding and silk screen printing, we engage service providers to provide such services where needed and to cater for delivery schedule of our customers when necessary. For FY2015, FY2016 and FY2017, relevant service fees incurred in the engagement of our service providers amounted to HK\$4.2 million, HK\$3.2 million and HK\$2.9 million, respectively, representing 1.1%, 1.0% and 1.1% of our cost of sales, respectively.

For further details of our customers and suppliers and service providers, please refer to the sections headed “Business — Our customers” and “Business — Our suppliers and service providers” in this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that we possess the following principal strengths which are crucial to our success and essential for our future growth: (i) global licensing strategy and strong standing relationships with major entertainment properties licensors; (ii) pioneer market position with strong capability in product innovation and design; (iii) extensive and diverse sales network with long established and stable relationship with international major retailers; (iv) strong production capabilities with vertically and horizontally integrated operation; and (v) experienced senior management team with comprehensive industry, market and product category knowledge and a proven track record.

OUR STRATEGIES

We intend to further enhance our leading position in the outdoor-and-sports as well as infant-and-preschool toy products industry and enlarge our market share internationally. To achieve these goals, we will adopt the following strategies: (i) diversify our product offerings through continuous development of new products and global licensing strategy; (ii) intensify our sales and marketing efforts to increase

SUMMARY

our market awareness so as to enhance our ability to acquire further licensing rights of internationally renowned entertainment properties and other intellectual properties covering global markets; (iii) enhancement of production efficiency to achieve cost efficiency by replacing and upgrading existing injection moulding machines and addition of new machinery; and (iv) upgrading of and up-keeping our production facilities.

HIGHLIGHTS OF RISK FACTORS

There are certain risks involved in our operations set forth in the section headed “Risk factors” in this prospectus. **You should read the “Risk factors” section in its entirety before you decide to invest in the Offer Shares.** Some of the major risk factors include: (i) we may fail to anticipate and respond to changes in consumer preference and market trend in a timely manner; (ii) any failure to renew licensing arrangements with our licensors may affect our business; (iii) we are subject to potential adverse consequences due to our lack of valid certificates, permits and other approvals in respect of certain properties we occupied in the PRC; (iv) fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact our operations and may adversely affect our profitability; (v) any unauthorised use of our brand or any other intellectual property rights by competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business and reputation; (vi) our international footprint exposes us to a variety of operational risks; (vii) future expansion plans are subject to uncertainties and risks; and (viii) any change in environmental protection and safety laws, rules and regulations may adversely affect our operation.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Capitalisation Issue and the Global Offering, KLH Capital will effectively hold 75% of the total issued share capital of our Company (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued pursuant to the options which may be granted under the Share Option Scheme). KLH Capital is held as to 25% by Mr. Kenneth Lo, 25% by Ms. Suzanne Lo, 25% by Ms. Sylvia Lo, 12.5% by Mr. Victor Lo and 12.5% by Ms. Esther Leung. Ms. Esther Leung is the spouse of Mr. Victor Lo, while Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo are children of Mr. Victor Lo and Ms. Esther Leung, and all of them are also directors of KLH Capital. In view of the above relationship between Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo, Ms. Esther Leung and KLH Capital, they will be considered as the controlling shareholders of our Company within the meaning of the Listing Rules upon Listing. Our Controlling Shareholders confirm that they and their respective associates do not have any interest in a business apart from our Group’s business which competes or is likely to compete, either directly or indirectly, with our Group’s business and would require disclosure pursuant to Rule 8.10 of the Listing Rules. Kiddieland Toys entered into a tenancy agreement with Top Dragon (owned as to 50% by each of Mr. Victor Lo and Ms. Esther Leung) in respect of a lease of an office premises, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules, details of which are set out in the section headed “Connected Transaction” in this prospectus.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

The following tables set forth selected financial and operating data from our selected consolidated financial information for the periods indicated. For more details on the financial information, please refer to the section headed “Financial information” in this prospectus.

SUMMARY

Summary of Consolidated Statements of Comprehensive Income

	For the year ended 30 April					
	2015		2016		2017	
	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue
Revenue	520,966	100.0	445,756	100.0	367,146	100.0
Cost of sales	(394,762)	(75.8)	(314,740)	(70.6)	(266,682)	(72.6)
Gross profit	126,204	24.2	131,016	29.4	100,464	27.4
Other income	1,980	0.4	1,144	0.3	893	0.2
Other gains, net	596	0.1	189	—	290	0.1
Selling and distribution expenses	(39,998)	(7.7)	(40,612)	(9.1)	(28,392)	(7.7)
Administrative expenses	(40,251)	(7.7)	(40,960)	(9.2)	(47,895)	(13.0)
Operating profit	48,531	9.3	50,777	11.4	25,360	6.9
Finance income	2,837	0.5	1,149	0.3	18	—
Finance expenses	(5,192)	(1.0)	(4,315)	(1.0)	(5,904)	(1.6)
Finance costs, net	(2,355)	(0.5)	(3,166)	(0.7)	(5,886)	(1.6)
Profit before taxation	46,176	8.9	47,611	10.7	19,474	5.3
Income tax (expenses)/credits	(9,644)	(1.9)	(13,586)	(3.0)	3,110	0.8
Profit for the year	36,532	7.0	34,025	7.6	22,584	6.2

Summary of Consolidated Statements of Financial Position

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current assets	300,316	315,271	254,613
Current liabilities	267,041	261,918	230,856
Net current assets	33,275	53,353	23,757
Non-current assets	160,776	148,055	147,500
Non-current liabilities	15,647	17,777	27,325
Total assets	461,092	463,326	402,113

Summary of Consolidated Cash Flows Statements

	For the year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Net cash generated from operating activities	78,171	99,563	10,564
Net cash used in investing activities	(44,836)	(71,215)	(68,882)
Net cash (used in)/generated from financing activities	(42,725)	(21,045)	81,624
Net (decrease)/increase in cash and cash equivalents	(9,390)	7,303	23,306
Cash and cash equivalents and bank overdrafts at beginning of the year	(18,912)	(28,344)	(21,838)
Cash and cash equivalents and bank overdrafts at end of the year (Note)	(28,344)	(21,838)	1,203

Note: We had cash and bank balances of HK\$15.5 million, HK\$15.2 million and HK\$7.9 million as at 30 April 2015, 2016 and 2017, respectively. For the purpose of consolidated cash flows statement pursuant to the relevant accounting standard, our bank overdrafts are presented as an integral part of our cash and cash equivalents as at respective year end. Accordingly, we recorded in our consolidated cash flow statements bank overdrafts in excess of cash and bank balances of HK\$28.3 million and HK\$21.8 million as at 30 April 2015 and 2016, respectively, and cash and bank balances net of bank overdrafts of HK\$1.2 million as at 30 April 2017.

SUMMARY

Our net cash used in investing activities during the Track Record Period comprised certain advances to related companies. Our Directors confirm that no further advance to related companies or shareholders relating to investing activities will be made after Listing.

We monitor and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the effects of fluctuations in cash flows. Our finance department closely monitors our Group's cash flows based on our receipts of trade and bills receivables, settlements of trade and bills payables, repayments of long-term bank borrowings, and payments for operating expenses and capital expenditures. Cash flows arising from such business activities, together with the cash and bank balances and short-term bank financing available for utilisation, are periodically reported by our finance department to our Directors for review and assessment. Based on the relevant financial information including our Group's cash position, amounts shortly receivable or payable and banking facilities available, our finance director and Directors determine the adequate types and utilisation of bank borrowings to ensure that our Group has sufficient cash to financing its operation, meeting relevant loan covenants while minimising our Group's financing costs.

Summary of Segment Data

Our products are broadly categorised into (i) outdoor-and-sports toy products; and (ii) infant-and-preschool toy products. The following table sets forth, for the periods indicated, the breakdown of our revenue by products type:

Revenue by product type

	For the year ended 30 April					
	2015		2016		2017	
	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %
Outdoor-and-sports toy products	403,714	77.5	349,220	78.3	287,393	78.3
Infant-and-preschool toy products	117,252	22.5	96,536	21.7	79,753	21.7
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

Revenue by customer type

The following table sets forth our revenue breakdown by customer type for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %	Revenue HK\$'000	Percentage of total %
Wholesalers and retailers	474,090	91.0	421,246	94.5	347,072	94.5
Distributors	41,788	8.0	19,741	4.4	19,378	5.3
End customers	5,088	1.0	4,769	1.1	696	0.2
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

SUMMARY

Gross profit and gross profit margin by product type

	For the year ended 30 April					
	2015		2016		2017	
	Gross profit <i>HK\$'000</i>	Gross profit margin %	Gross profit <i>HK\$'000</i>	Gross profit margin %	Gross profit <i>HK\$'000</i>	Gross profit margin %
Outdoor-and-sports toy products	102,591	25.4	108,979	31.2	82,245	28.6
Infant-and-preschool toy products	23,613	20.1	22,037	22.8	18,219	22.8
	<u>126,204</u>	<u>24.2</u>	<u>131,016</u>	<u>29.4</u>	<u>100,464</u>	<u>27.4</u>

Key Financial Ratios

	For the year ended 30 April		
	2015	2016	2017
Return on equity (%)	21.3	18.8	13.8
Return on total assets (%)	7.3	7.4	5.2
Interest coverage	9.3	11.8	4.3
Cash conversion cycle (days) (Note 1)	93	112	144
	As at 30 April		
	2015	2016	2017
Current ratio	1.1	1.2	1.1
Gearing ratio (%) (Note 2)	91.7	89.8	120.9
Net debt to equity ratio (%)	83.0	81.5	115.4

Note:

- (1) Cash conversion cycle is calculated as average inventory turnover days plus average trade and bills receivables turnover days, less average trade and bills payables turnover days in the year.
- (2) Gearing ratio is based on the total debt as at the respective dates divided by the total equity as at the respective dates and multiplied by 100%.

For calculation of the above financial ratios, please refer to the section headed “Financial information — Key financial ratios” in this prospectus.

Financial Performance during the Track Record Period

Revenue

Our financial performance has deteriorated during the Track Record Period. Our revenue decreased by HK\$75.2 million, from HK\$521.0 million for FY2015 to HK\$445.8 million for FY2016, primarily due to (i) the decrease in our sales in Europe, in particular Russia and EU countries, by HK\$36.0 million as a result of the significant depreciation of Russian Ruble and Euro against USD whereby our products became relatively more expensive to our customers in Europe thus decreased their demand for our products; (ii) the decrease in demand of our products in EU countries as a result of the economic downturn of EU countries during the period; (iii) the decrease in the sales of our co-branded toy products as a result of the diminish in enthusiasm of consumer in a number of entertainment properties of blockbuster movies and TV series.

Our revenue further decreased by HK\$78.7 million from HK\$445.8 million for FY2016 to HK\$367.1 million for FY2017, which was primarily due to, amongst others, (i) the decrease in our sales in the U.S. as a result of the change in the product display and procurement strategies of two major customers in the U.S., who were our top five customers during the Track Record Period; (ii) the decrease in our sales in Japan mainly due to the reduction in orders from a customer in Japan who, the Directors

SUMMARY

believe, reduced its resources in developing the Japanese market for its private label toy products; and (iii) our withdrawal from the China market during the year in view of the increasing costs of obtaining licensing rights for distribution of our co-branded toy products in the PRC.

Please refer to the section headed “Financial information — Period to period comparison of results of our operation” in this prospectus for detailed explanation of the reasons for the decrease in our revenue during the Track Record Period.

Gross Profit Margin

Our gross profit margin increased from 24.2% in FY2015 to 29.4% in FY2016 mainly due to (i) the decrease in market prices of plastic resins which our average procurement cost of major raw materials decreased by 18.8%; and (ii) a decrease in staff costs, utilities and production overhead costs and others whereby our average number of production staff decreased by 15.4% in FY2016 as we continue to streamline our production process. Our gross profit margin decreased from 29.4% for FY2016 to 27.4% for FY2017 was mainly due to the decrease in average selling price of our toy products mainly as a result of price reduction on products sold to certain major customers.

Net profit

Our net profit decreased from HK\$36.5 million for FY2015 to HK\$34.0 million for FY2016, was the combined result of (i) the increase in gross profit by HK\$4.8 million as a result of the decrease in cost of sales due to the decrease in market prices of plastic resins and our Group’s streamline of production process; (ii) the increase in transportation expenses by HK\$3.3 million mainly resulted from the change in packaging requirement for goods delivered to a major customer in the U.S. leading to extra warehousing costs; (iii) the listing expenses of HK\$4.3 million incurred in FY2016; and (iv) the increase in income tax expenses by HK\$4.0 million mainly because the current tax in FY2015 was provided under contract processing while the current tax in FY2016 was provided under import processing. Our net profit decreased from HK\$34.0 million for FY2016 to HK\$22.6 million for FY2017, which was a combined result of (i) the decrease in gross profit by HK\$30.5 million due to the overall decrease in revenue as discussed above; (ii) the listing expenses of HK\$13.0 million incurred during the year; (iii) the decrease in freight charges and the decrease in commission paid to sales representatives in North America due to the decreases in sales in the region; and (iv) the change from income tax expense of HK\$13.6 million for FY2016 to income tax credit of HK\$3.1 million for FY2017 mainly attributable to (a) a reversal of over-provision of Hong Kong profits tax of HK\$2.6 million in prior year; (b) utilisation of previously recognised tax losses of DG Kiddieland Industrial of HK\$3.3 million; and (c) a reversal of temporary difference on deferred taxation of HK\$4.0 million. As the tax credit recorded by the Group in FY2017 is non-recurring in nature, our Directors believe that it is unlikely the Group will record similar tax credit in the forthcoming financial year. In the absence of such tax credit, net profit of our Group (excluding the impact of listing expenses) for the forthcoming financial year may decrease.

RECENT DEVELOPMENT

Subsequent to the Track Record Period, based on the unaudited consolidated financial information of our Group for the two months ended 30 June 2017, our revenue slightly decreased by around 2.6% as compared to the corresponding period in 2016. Such decrease in revenue was mainly attributable to (i) the decrease in orders from customers in the U.K. market which our Directors believe was a result of the stagnant market sentiment in the U.K. due to the Brexit; and (ii) the decrease in average selling price of products sold to a major customer in the U.S. because of the change in its procurement arrangement. Since June 2017, the shipping arrangement with one of our major customers in U.S. changed from POE terms, where we were responsible for the transportation expenses for delivery of products to U.S. and the warehousing expenses in the U.S. until our customers picked them up from our U.S. warehouse, to FOB terms where we pass the title of our products to such customer in the PRC. Sales to such major customer accounted for 17.5% of our revenue in FY2017. As we were no longer responsible for the logistic expenses in relation to the delivery of goods from the PRC to U.S. under the new shipping arrangement with such customer, selling prices of our products and hence the gross margin from sales of our products to such customers have decreased. Our gross profit margin for the two months ended 30 June 2017 also decreased compared to the corresponding period in 2016 mainly due to the decrease in average selling price while our cost of sales slightly increased by 2.3%. Given the above and combined with the corresponding decrease in delivery and warehousing cost and the absence of tax credit in the period as further discussed below, our net profit for the two months ended 30 June 2017 also decreased compared to the corresponding period in 2016.

SUMMARY

In terms of the new development of our licensing strategy, we recently entered into a licensing agreement with an automobile manufacturer for sales and distribution of ride-on toy products which allow us to diversify the product offerings of our outdoor-and-sports toy products.

As far as we are aware, except for those disclosed above, there was no material change in the market and regulatory environment in our industry that had materially and adversely affected our business operations, results of operations, or financial condition since 30 April 2017 and up to the date of this prospectus. Our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our business operations, results of operations, or financial condition since 30 April 2017, being the date to which our latest audited consolidated financial information was prepared.

However, our Directors anticipate that our net profit for the year ending 30 April 2018 may be negatively affected by the absence of the non-recurring tax credit of approximately HK\$3.1 million recorded for FY2017 as our Directors do not currently anticipate our Group to record similar tax credit for the year ending 30 April 2018. The effect of the absence of such tax credit is expected to be partially offset by the decrease in our listing expenses by around HK\$6.2 million for the year ending 30 April 2018 comparing to FY2017.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.45 per Offer Share, being the mid-point of the indicative Offer Price range, will be approximately HK\$79.1 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply the net proceeds in the following manner: (i) approximately HK\$41.0 million (or approximately 51.8% of the net proceeds) for the diversification of our product offerings by developing new products and further entering into licensing arrangements with various reputable entertainment properties licensors and licensors of other intellectual properties; (ii) approximately HK\$21.5 million (or approximately 27.2% of the net proceeds) for strengthening sales and marketing of our co-branded products and **KIDDIELAND** branded products; (iii) approximately HK\$7.5 million (or approximately 9.5% of the net proceeds) for replacing and upgrading our injection moulding machines as well as setting up of a new fabrication line to further improve our production efficiency and capabilities; and (iv) approximately HK\$9.1 million (or approximately 11.5% of the net proceeds) for repair and maintenance of our factory and production tools and machinery.

For further details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

OFFERING STATISTICS

The table sets forth the offering statistics of the Global Offering, assuming that the Capitalisation Issue and the Global Offering have been completed and 1,000,000,000 Shares in issue without taking into account any Shares which may be issued upon the exercise of any of the Over-allotment Option.

	Based on an Offer Price of HK\$0.40 per Offer Share	Based on an Offer Price of HK\$0.50 per Offer Share
Market capitalisation of the Shares (<i>Note 1</i>)	HK\$400.0 million	HK\$500.0 million
Unaudited pro forma adjusted consolidated net tangible assets per Share (<i>Note 2</i>)	HK\$0.20	HK\$0.22

Notes:

- (1) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue immediately following completion of the Capitalisation Issue and the Global Offering without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.
- (2) Please refer to the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus for further details regarding the assumptions used and the calculation method.

SUMMARY

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. The dividends declared and paid by Kiddieland Industrial to its then shareholders was HK\$22.0 million, HK\$27.0 million and HK\$60.0 million for FY2015, FY2016 and FY2017, respectively. The dividend declared in FY2017 was settled by way of offsetting the amount due from a related company as designated by the then shareholders of Kiddieland Industrial. We currently intend to declare an additional dividend of HK\$100.0 million prior to the Listing and a substantial portion of which will be settled by way of offsetting our amounts due from a related company, and the remaining portion will be settled by our internal resources prior to the Listing.

Our Directors intend to recommend dividends which would amount in total to not less than 30% of the net distributable profit of the Group starting from the financial year ending 30 April 2018 but will be subject to the discretion of our Board and the approval of our Shareholders after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and other fees and expenses incurred in connection with the Global Offering and the Listing. Assuming an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be approximately HK\$33.4 million, of which approximately HK\$9.3 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity, and the remaining amount of approximately HK\$24.1 million has been or will be reflected in the consolidated statement of comprehensive income of our Group. Listing expenses of HK\$4.3 million and HK\$13.0 million in relation to services already performed by relevant parties, were reflected in our consolidated statement of comprehensive income for the FY2016 and FY2017, respectively, and HK\$6.8 million of additional listing expenses are expected to be recognised in the consolidated statement of comprehensive income of our Group subsequent to the Track Record Period. The listing expenses are subject to adjustment based on the actual amount incurred or to be incurred. Our results of operations subsequent to the Track Record Period may be adversely affected by the listing expenses we incurred in the period.

LEGAL COMPLIANCE

During the Track Record Period, we were not in compliance with certain PRC laws and regulations, including: (i) we had not made full contribution to the social insurance fund and housing provident fund and made housing provident fund contribution registration with the relevant authorities for our employees; (ii) we had not obtained land use right certificates for the land on which our production and ancillary facilities are located; (iii) we had not obtained necessary permits prior to commencing construction of some of our properties; (iv) we involved in a claim in respect of non-compliance with customs filing against an ex-employee of our Group; (v) we were alleged that there was a shortfall of circuit boards in bond that are monitored by the customs authorities; (vi) we had not made necessary filings in respect of the delegation of certain manufacturing process to the relevant customs authorities; and (vii) we discharge effluent without complying with the laws and regulations of the PRC.

As at the Latest Practicable Date, we had taken remedial actions to rectify the non-compliance incidents and we intend to adopt and/or have adopted a number of internal control procedures to prevent future occurrence and/or reoccurrence of the non-compliance incidents. Please refer to the sections headed "Business — Legal compliance" and "Business — Internal control procedures" in this prospectus for more information.

DEFINITIONS

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company, approved and adopted on 31 August 2017 and effective on the Listing Date and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	audit committee of our Board
“Board” or “our Board”	the board of Directors
“Business Day”	a day other than a Saturday, Sunday or public holiday on which banks in Hong Kong are generally open for banking business to the public
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 749,990,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company in connection with the Global Offering as referred to in “Appendix V — Statutory and general information — I. Further information about our Company — 4. Written resolutions of our sole Shareholder passed on 31 August 2017”
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CIC”	China Insights Consultancy Limited
“CIC Report”	the independent industry report issued by CIC on the global toy market and China’s toy export market study
“Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented and/or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or modified from time to time
“Company”	Kiddieland International Limited, an exempted company incorporated in the Cayman Islands with limited liability on 3 June 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and in the context of this prospectus, means Lo’s Family and KLH Capital
“core connected person”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 31 August 2017 executed by our Controlling Shareholders as indemnifiers in favour of our Company (for itself and as trustee of each of its subsidiaries), as further described in the paragraph headed “Other information — Estate duty, tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 31 August 2017 executed by our Controlling Shareholders in favour of our Company, as further described under the section headed “Relationship with our Controlling Shareholders” of this prospectus
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Disney Europe”	The Walt Disney Company Limited, a company incorporated on 3 August 1954 in the United Kingdom which is the licensor in the license agreement pursuant to which we obtained the licence to use the Disney entertainment properties in specified territory in Europe, Asia and Africa in accordance with the terms of the said agreement. Disney Europe is an Independent Third Party
“Disney Greater China”	The Walt Disney Company (Hong Kong) Limited, the licensor in the license agreement pursuant to which we obtained the licence to use the Disney entertainment properties in the PRC, Hong Kong, Taiwan, Macau, Australia and New Zealand in accordance with the terms of the said agreement. Disney Greater China is an Independent Third Party
“Disney Latin America”	Disney Consumer Products Latin America, Inc., the licensor in the license agreement pursuant to which we obtained the licence to use the Disney entertainment properties in specified territory in Central and Latin America in accordance with the terms of the said agreement. Disney Latin America is an Independent Third Party
“Disney USA”	Disney Consumer Products, Inc., the licensor in the license agreement pursuant to which we obtained the licence to use the Disney entertainment properties in Canada, U.S. and all the territories and possessions of U.S. in accordance with the terms of the said agreement. Disney USA is an Independent Third Party
“DG Kiddieland Factory”	東莞塘廈童園玩具廠 (Dongguan Tangxia Kiddieland Toy Factory*), a contract processing factory (來料加工廠) established in the PRC on 9 April 1998 in accordance with an agreement entered into between Kiddieland Industrial and 東莞市塘廈鎮鎮聯經貿有限公司 (Dongguan Tangxia Town Zhenlian Jingmao Co., Ltd.*) (an Independent Third Party)
“DG Kiddieland Industrial”	東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 20 January 2014 and a wholly-owned subsidiary of our Company
“DG Kiddieland Toys”	東莞童夢園玩具有限公司 (Dongguan Kiddieland Toys Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 18 June 2008 and a wholly-owned subsidiary of our Company
“EU” or “E.U.”	the European Union
“FY2015”	the financial year ended 30 April 2015
“FY2016”	the financial year ended 30 April 2016
“FY2017”	the financial year ended 30 April 2017

DEFINITIONS

“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Herbert Smith Freehills”	Herbert Smith Freehills New York LLP, Herbert Smith Freehills LLP and Herbert Smith Freehills, an Australian Partnership
“HIT Entertainment”	HIT Entertainment Ltd. and/or its affiliates, with whom we have entered into certain licence agreement to obtain the licence for the use of certain of their entertainment properties (Thomas & Friends). HIT Entertainment Ltd. is an Independent Third Party
“HK\$”, “HKD” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“ HK eIPO White Form(s) ”	the application form(s) for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified on the designated website at www.hkeipo.hk
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, as in effect from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 25,000,000 newly issued Shares offered by us for subscription under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares subject to reallocation as described in “Structure and Conditions of the Global Offering” in this prospectus

DEFINITIONS

“Hong Kong Public Offering”	the offer by us of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriter”	Huajin Securities (International) Limited, being the sole underwriter of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 8 September 2017 relating to the Hong Kong Public Offering entered into between, amongst others, our Company, our Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriter, particulars of which are set out in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive, the controlling shareholders, or the substantial shareholders of our Company or our subsidiaries or any of their respective associates
“Innotech”	Innotech & Associates Limited, a company incorporated in Hong Kong with limited liability on 7 August 1998 and a wholly-owned subsidiary of our Company
“International Offer Shares”	225,000,000 new Shares being initially offered by us for subscription pursuant to the International Placing together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to reallocation as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus)
“International Placing”	the conditional placing of the International Offer Shares by the International Underwriter(s) for and on behalf of our Company to professional, institutional and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus

DEFINITIONS

“International Sanctions”	all applicable economic sanctions related laws and regulations including those administered and enforced by the U.S., the E.U., the U.N. and Australia authorities
“International Underwriter(s)”	the underwriter(s) named in the International Underwriting Agreement, being the underwriter(s) of the International Placing
“International Underwriting Agreement”	the underwriting agreement in respect of the International Placing expected to be entered into by, among others, our Company, our Controlling Shareholders, the Sole Global Coordinator and the International Underwriter(s) on or about the Price Determination Date, as further described in the section headed “Underwriting” in this prospectus
“Kiddieland Group”	Kiddieland Group Limited, a company incorporated in the BVI with limited liability on 30 May 2016 and a wholly-owned subsidiary of our Company
“Kiddieland Industrial”	Kiddieland Industrial Limited, a company incorporated in Hong Kong with limited liability on 3 October 1997 and a wholly-owned subsidiary of our Company
“Kiddieland Manufacturing”	Kiddieland Manufacturing Limited, a company incorporated in the BVI with limited liability on 30 May 2016 and a wholly-owned subsidiary of our Company
“Kiddieland Toys”	Kiddieland Toys Limited, a company incorporated in Hong Kong with limited liability on 7 May 2001 and a wholly-owned subsidiary of our Company
“Kiddieland Trading”	Kiddieland Trading Limited, a company incorporated in the BVI with limited liability on 30 May 2016 and a wholly-owned subsidiary of our Company
“Kiddieland UK”	Kiddieland Toy Limited, a company incorporated in England and Wales with limited liability on 29 December 1999 and a wholly-owned subsidiary of our Company
“Kiddieland US”	Kiddieland Toy, Inc., a corporation incorporated in New York, the United States of America on 8 June 1999 and a wholly-owned subsidiary of our Company
“KLH Capital”	KLH Capital Limited, a company incorporated in the BVI with limited liability on 30 May 2016, which is a Controlling Shareholder of our Company and is held as to 25% by Mr. Kenneth Lo, 25% by Ms. Suzanne Lo, 25% by Ms. Sylvia Lo, 12.5% by Mr. Victor Lo and 12.5% by Ms. Esther Leung

DEFINITIONS

“Latest Practicable Date”	2 September 2017, being the latest practicable date for the purpose of ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date expected to be on or around Thursday, 21 September 2017, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lo’s Family”	comprising Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung
“Main Board”	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of the Company, approved and adopted on 31 August 2017 and as amended from time to time; a summary of which is set out in Appendix IV to this prospectus
“Mr. Kenneth Lo”	Lo Shiu Kee Kenneth, our executive Director, chief executive officer, a shareholder of KLH Capital, son of Mr. Victor Lo and Ms. Esther Leung and elder brother of Ms. Suzanne Lo and Ms. Sylvia Lo
“Mr. Victor Lo”	Lo Hung, our Chairman and executive Director, a shareholder of KLH Capital, husband of Ms. Esther Leung, and father of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo
“Ms. Esther Leung”	Leung Siu Lin Esther, our executive Director, a shareholder of KLH Capital, wife of Mr. Victor Lo and mother of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo
“Ms. Suzanne Lo”	Lo Shiu Shan Suzanne, our executive Director, a shareholder of KLH Capital, daughter of Mr. Victor Lo and Ms. Esther Leung, younger sister of Mr. Kenneth Lo and elder sister of Ms. Sylvia Lo

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“Ms. Sylvia Lo”	Sin Lo Siu Wai Sylvia, our executive Director, a shareholder of KLH Capital, daughter of Mr. Victor Lo and Ms. Esther Leung, and younger sister of Mr. Kenneth Lo and Ms. Suzanne Lo
“Nomination Committee”	nomination committee of our Board
“OFAC”	the Office of Foreign Assets Control of the U.S. Department of the Treasury
“Offer Price”	the final price for each Offer Share (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee payable thereon) of not more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, such price to be determined by agreement among the Sole Global Coordinator and our Company on or before the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to the International Underwriter(s) under the International Underwriting Agreement, exercisable by the Sole Global Coordinator, pursuant to which we may be required to allot and issue up to 37,500,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to cover over-allocations in the International Placing, if any, as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Legal Adviser”	Dentons, the legal adviser to our Company as to PRC law

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“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Date”	the date expected to be on or around Friday, 15 September 2017, but no later than Wednesday, 20 September 2017, on which the Offer Price is fixed for the purpose of the Global Offering
“Principal Share Registrar”	Estera Trust (Cayman) Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	remuneration committee of our Board
“Reorganisation”	the corporate reorganisation undergone by our Group in preparation for the Listing as described in the section headed “History, reorganisation and group structure — Reorganisation” in this prospectus and the section headed “I. Further information about our Company — 5. Corporate reorganisation” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Sanctioned Countries”	countries which are targets of International Sanctions
“Sanctioned Persons”	certain person(s) and entity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists under the International Sanctions
“Sesame Workshop”	a not-for-profit organisation and the licensor in the licence agreement pursuant to which we obtained the licence to use certain entertainment properties owned by Sesame Workshop. Sesame Workshop is an Independent Third Party
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s) from time to time
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 31 August 2017, the principal terms of which are summarized in the section headed “Statutory and general information — IV. Share Option Scheme” in Appendix V to this prospectus

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“Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager” or “Stabilising Manager”	Huajin Securities (International) Limited, a corporation licensed to carry out Type 1 (dealing in securities) regulated activities for the purpose of the SFO
“Sole Sponsor”	WAG Worldsec Corporate Finance Limited, a corporation licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
“sq.ft.”	square feet
“sq.m.”	square metre(s)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between KLH Capital and the Stabilising Manager on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers, as amended from time to time
“Top Dragon”	Top Dragon Enterprise Investment Limited, a company incorporated in Hong Kong with limited liability on 15 February 2007 which is a connected person of our Company and is held as to 50% by Mr. Victor Lo, and 50% by Ms. Esther Leung
“Track Record Period”	the period comprising FY2015, FY2016 and FY2017
“U.K.” or “UK”	United Kingdom of Great Britain and Northern Ireland
“UN” or “U.N.”	the United Nations
“Underwriters”	the Hong Kong Underwriter and the International Underwriter(s)
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.”, “US”, “USA” or “United States”	the United States of America, its territories and possessions and all areas subject to its jurisdiction
“USD” or “US\$”	United States dollars, lawful currency of the U.S.
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time

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“VAT”	value-added tax
“VIMN”	Viacom International Inc. and its subsidiaries and/or divisions, the licensor in the licence agreement pursuant to which we obtained the licence to use certain entertainment properties owned by VIMN. VIMN is an Independent Third Party
“W. Great Worth”	W. Great Worth Limited, a company incorporated in Hong Kong with limited liability on 30 May 1997 and a wholly-owned subsidiary of our Company
“WHITE Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicant’s own name
“YELLOW Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

Unless expressly stated or the context requires otherwise, amounts and percentage figures, including share ownership and operating data in this prospectus may have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail.

English translation of company names in Chinese or another language which are marked with “” are for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“ASTM”	a voluntary standards development organization whose work covers 15 industries, ranging from energy to chemicals to medical devices
“bonder”	a machine or substance used to make a bond
“buffer conveyor”	automated system which transport products in a production line with minimal line pressure
“CAGR”	compound annual growth rate
“chip shooter”	a machine used for assembling small chips, such as electronic components
“co-branded products”	products branded under third party licensed entertainment properties and KIDDIELAND brand
“core toys”	toys which relate directly to the animated movies or television series featuring the entertainment properties concerned, for example stuffed toys
“CPSIA”	The Consumer Product Safety Improvement Act of 2008 of the U.S.
“entertainment properties”	licensed rights of reputable and/or up-and-coming characters featured in animated television series or motion pictures granted by licensors
“FOB”	an abbreviation for free on board, which means that title and risk pass to the buyer including payment of all transportation and insurance cost once delivered on board the ship by the seller; an international commerce term used for sea or inland waterway transportation
“GDP”	gross domestic product
“infant-and-preschool toy product(s)”	stacking, shape sorting, push/pull toys, musical instruments, play sets and figures, role play/dress-up and other role play, bath toys
“injection moulding”	a plastic manufacturing process involving heating and pressurising, granules of thermoplastics materials such as polystyrene into a mould, to form into different shape and size of products

GLOSSARY OF TECHNICAL TERMS

“modularisation”	a design technique that emphasises separating the functionality of a program into independent, interchangeable modules, such that each contains everything necessary to execute only one aspect of the desired functionality
“ODM”	acronym for original design manufacturing, where a manufacturer designs and manufactures a product which is specified by the customer and eventually sold under the brand name of the customer
“OEM”	acronym for original equipment manufacturing, whereby products are manufactured in accordance with the customer’s design and specifications and are marketed and sold under the customer’s brand name
“outdoor-and-sports toy product(s)”	bicycles, trikes, ride-ons, skateboards, scooters, foam toys and weaponry, sporting goods, seasonal toys, walkers
“POE”	a common shipping term for sales of goods which the vendor must land the containers at the port of destination and the vendor is responsible for providing the buyer with the documents necessary to obtain the goods from the carrier
“REACH”	a regulation of E.U. adopted to improve the protection of human health and environment from the risks that can be posed by chemicals, it came into force in 2007
“RoHS”	Restriction of Hazardous Substances Directive, which is a directive adopted by E.U. in 2003 restricting the use of hazardous materials in various items including toy
“SMT printer”	a printer using the surface mount technology which enables the components to be mounted or placed directly onto the surface of printed circuit boards
“WEEE”	Waste Electrical and Electronic Equipment Directive, which is a directive adopted in 2002, and imposes restricts upon E.U. manufacturers as to the material content of new electronic equipment placed on the market

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectation and assumptions regarding our business, the economy and other future conditions. We can give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- our goals and strategies;
- our ability to stay abreast of market trends and maintain commercially reasonable relationships with our customers and suppliers;
- our ability to retain core team members and recruit qualified and experienced new team members;
- our ability to maintain an effective quality control system;
- our profit forecast and other prospective financial information; and
- the other factors that are described in the section headed “Risk factors” in this prospectus.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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You should carefully consider all of the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our manufacturing operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our Group's financial performance deteriorated during the Track Record Period. Should our Group's financial performance further deteriorate in the future, the liquidity, financial position, business operations and prospect of our Group will be adversely affected and investors will be exposed to high risk of investment in our Company

Our Group's financial performance deteriorated during the Track Record Period. Our revenue decreased by 14.4% from HK\$521.0 million for FY2015 to HK\$445.8 million for FY2016, and further decreased by 17.7% to HK\$367.1 million for FY2017.

The decrease of our revenue by 17.7% from FY2016 to FY2017 was mainly due to, amongst others, (i) the decrease in our sales in the U.S. as a result of the change in the product display and procurement strategies of two major customers in the U.S., who were our top five customers during the Track Record Period; (ii) the decrease in our sales in Japan mainly due to the reduction in orders from a customer in Japan who, the Directors believe, reduced its resources in developing the Japanese market for its private label toy products; and (iii) our withdrawal from the China market during the year in view of the increasing costs of obtaining licensing rights for distribution of our co-branded toy products in the PRC.

Our revenue decreased by 14.4% from FY2015 to FY2016 was primarily due to (i) the decrease in our sales in Europe, in particular Russia and EU countries, by HK\$36.0 million as a result of the significant depreciation of Russian Ruble and Euro against USD whereby our products became relatively more expensive to our customers in Europe thus decreased their demand for our products; (ii) the decrease in demand of our products in EU countries as a result of the economic downturn of EU countries during the period; (iii) the decrease in the sales of our co-branded toy products as a result of the diminish in enthusiasm of consumer in a number of entertainment properties of blockbuster movies and TV series. For further details, please refer to the section headed "Financial information — Period to period comparison of results of our operation".

If we are not able to turnaround the sales and attain the profit comparable to that of the Track Record Period in the future, our Group's financial performance, liquidity, financial position, business operations and prospect of our Group will be adversely affected and the investors will be exposed to high risk of investment in our Company.

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We may fail to anticipate and respond to changes in consumer preference and market trend in a timely manner

Our future growth depends on our ability to retain existing customers and to continue attracting new potential customers and gaining new purchases for our products. Constantly changing market trend and consumer preferences have affected and will continue to affect our business. To maintain our attractiveness, our product design and development team is constantly updated to provide latest trend in toy market by visiting and communicating with overseas toy retailers to understand the latest trend, and maintaining continuous communication with the design teams of the licensors to work out a desirable design appealing to our customers. If we fail to update our product design and development regularly, customers may lose interest in our products.

We analyse our customers' preference using historical sales data and determine our product design and marketing strategy accordingly. We cannot guarantee that our prediction on consumer behaviour could be accurate. To maintain our position in the toy market, we must stay abreast of constantly changing consumer preferences and anticipate product trends that will appeal to existing and potential customers, and any failure to identify and respond to such trends could result in decreased number of customers and reduced attractiveness of our products. This may in turn lead to significant adverse effects on our business, financial condition and results of operations.

Our sales during the Track Record Period relied on the popularity and market acceptance of entertainment properties used in our co-branded products, which depends largely on the business cycle of the global animated movie industry and the marketing and promotional activities of the entertainment properties licensors

Under our Group's global licensing strategy, we design and manufacture our products where we partner with reputable entertainment properties licensors. Our sales are therefore dependent on the strength and reputation of entertainment properties of the renowned entertainment properties licensors we partner with. In particular, the success of our products co-branded with licensed entertainment properties is to a certain extent dependant on the market acceptance of the entertainment properties which is in turn affected by the market acceptance and popularity of the animated movie or TV series, the marketability of the merchandising items with licensed entertainment properties, and marketing and promotion activities initiated by the licensors. Our Group's business is therefore subject to the business cycle of the global animated movie industry and the promotional campaigns undertaken by the licensed entertainment properties licensors. The lasting effect of the animated movies or TV series on the sales of the products of the Group depends on the popularity of the movie or TV series as well as the compatibility of the movie or TV characters to our product categories. Our toy products co-branded under the licensed entertainment properties are concentrated on licensors such as Disney, HIT Entertainment, Sesame Workshop, and VIMN.

During FY2015 and FY2016 and FY2017, our sales of co-branded products accounted for approximately 71.6%, 73.4% and 73.8% of our revenue respectively. We relied heavily on third party owned licensed entertainment properties, and the popularity and market acceptance of such entertainment properties largely depend on the marketing and promotion activities of new and up-coming animated movies initiated by the licensors. We cannot guarantee that

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third party owned licensed entertainment properties are able to maintain their popularity and commercial success amongst customers in the long term. If the market demand for the entertainment properties experience a slowdown, demand for our co-branded products may decrease and as a result, our business, financial condition, and results of operations would also be materially and adversely affected.

We rely on major entertainment properties licensors and any failure to renew licensing arrangements with our licensors may affect our business

As at 30 April 2015, 2016, 2017 and the Latest Practicable Date, there were seven, nine, ten and 10 subsisting licensing agreements entered into between us and major entertainment properties licensors. The duration of the license granted to us are usually one to three years. The performance of our Group depends heavily on our continuing ability to renew the licensing arrangements entered into between us and various major entertainment properties licensors. If we fail to renew, or if such agreements are terminated prior to their expiry or if we fail to renew such agreements on the same or more favourable terms, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to potential adverse consequences due to our lack of valid certificates, permits and other approvals in respect of certain properties we occupied in the PRC

We currently occupy the DG Kiddieland Factory Land with an aggregate site area of approximately 91,879 sq.m. where comprises (i) the Production Plant Land which housed our Production Plant(s) and (ii) the Remaining Land with certain ancillary facilities erected thereon. As at the Latest Practicable Date, we had not obtained the requisite land use right certificates for the DG Kiddieland Factory Land and the real estate ownership certificate for all the buildings erected on the DG Kiddieland Factory Land in accordance with the relevant PRC laws and regulations. Since the Production Plants is crucial to our business operation, any title defect may expose us to the risks of discontinuation of our production process, and therefore causing a disruption to our operation.

As at the Latest Practicable Date, we are in the process of obtaining various permits, certificates and other approvals, including land use right certificate and real estate ownership certificate, planning permit for construction project, construction permit for construction project and completion and acceptance permit for construction project in relation to the Production Plant Land and all or part of the factory blocks erected thereon. According to our PRC Legal Adviser, the total costs for completion of the remaining steps for obtaining the land use right is estimated to be approximately RMB21.6 million, and the total costs of obtaining the real estate ownership certificates for Production Plant Land is expected to be not more than RMB1.7 million. For further details of the estimated costs for obtaining the relevant land use rights and real estate ownership certificates for the Production Plant, please refer to the section headed “Business — Our properties — Properties that we occupied in the PRC”. However, we may not be able to rectify such defects or may encounter obstacles in obtaining the relevant permits and title certificates. As advised by our PRC Legal Adviser, relevant government authorities could (i) order rectification of the non-compliances; (ii) confiscate the proceeds generated therefrom; (iii) order demolition of the property concerned; and (iv) impose fines. As advised by our PRC legal Adviser, we may face a penalty of up to approximately RMB0.7 million during the process of application for the real estate ownership certificates and a further potential fine of up to approximately RMB0.6 million due to the lack of requisite planning permit for construction project, construction permit for construction project and completion and acceptance permit for construction project for one of the factory building on

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the Production Plant Land. Although we have identified a suitable replacement premises and formulated a contingency plan to rearrange the workshops and relocate the ancillary facilities in concern, we cannot guarantee there will no additional penalty to be imposed by the relevant PRC authorities in this respect. In the event that, we are required to demolish or relocate some of our factory blocks, warehouses, staff dormitory and other ancillary facilities that without proper permits, certificates and approval, certain relocation cost and time will be required which may adversely affect our operations. In the worst scenario that our Group could not obtain the land expropriation approval from the Guangdong provincial government and is unable to further proceed to obtain the land use right certificates of the Production Plant Land and the real estate ownership certificates of the Production Plants, and in the event that the Qinghutou Agreement II (in respect of the factory block D) is ruled to be invalid by the courts of the PRC, DG Kiddieland Industrial will not be able to use the factory block D, we will be evicted from such premises and rearrange our production workshops and warehouses and relocate our warehouses, canteen and dormitories to the Backup Site and the total estimated relocation costs would be no more than RMB0.5 million. For the definitions of the terms above, detailed background of the properties occupied by us in the PRC and details of our contingency plan, please refer to the section headed “Business — Our properties — Properties that we occupied in the PRC”.

Fluctuation in foreign currencies could have an impact on our sales

We believe that the fluctuations in currencies have a direct impact on our customers’ demand of our toy products, which would in turn affect our sales performance and results of operations. Our sales were mainly denominated in US dollar. As such, as a result of the depreciation of domestic currency of our targeted markets against USD, our products may become relatively more expensive and our customers may reduce their purchase of our products, which in turn adversely affected our sales. During the Track Record Period, our sales had been adversely affected by the depreciation of local currencies in Russia and Mexico. Fluctuations in the domestic currency of our customers is beyond our control. If there is any further material fluctuations in the domestic currency of our targeted markets and we cannot mitigate such impact by enhancing our sales and marketing and stimulating demand for our toy products in other regions, our business, financial condition and results of operations may be adversely affected.

Our international footprint exposes us to a variety of operational risks

While our physical presence is largely concentrated in Hong Kong and the PRC, our products are distributed and sold around the world, and most of our sales are denominated in USD during the Track Record Period. As the toy manufacturing industry is subject to stringent quality and safety standards in jurisdictions where our customers do business, the international scope of our operations exposes us to several types of complexities that increase the risks associated with our business, including but not limited to:

- the need to serve our overseas customers with different cultural background and time zones resulting in difficulties in maintaining relationship with them;
- the need to effectively adjust our business to target the local markets, including the sourcing of distribution network;
- different local laws and regulations, including relating to consumer protection, data privacy, labour, intellectual property, licensing, tax, trade, and customs duties or other trade restrictions;

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- the potential for unexpected changes in legal, political or economic conditions in the countries from which we source or into which we sell;
- exposure to liabilities under various anti-corruption and anti-money laundering laws; and
- fluctuations in foreign exchange rates against the USD.

If we fail to address the potential risks above, or if one or more of these risks materialises, this could have a material adverse effect on our reputation, business, financial condition and results of operations.

We generally do not enter into long-term contracts with our customers and purchase order we receive may fluctuate from period to period

As our sales are normally made on purchase orders, we do not have long-term contracts with our customers. Accordingly, we may have limited visibility as to our future revenue streams and there is no assurance that we will maintain or increase the level of our business with existing or potential customers. Our customers may cancel or defer purchase orders. Our customers' purchase orders may vary from period to period, and it is difficult to forecast future order quantities. Should our customers decide to reallocate their budgets and choose our competitors due to the market conditions or we fail to provide attractive toy products to attract or retain customers or any other factors, the demand for our products may not grow or even decline and our business, results of operations and financial condition may be materially and adversely affected. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We depend on a strong brand, which we might not be able to maintain or enhance, and unfavourable customer feedback or negative publicity could adversely affect our brand

We believe that our brand **KIDDIELAND** is well received by our customers and it has significantly contributed to the growth of our business. Our Directors believe that the notable awareness of the **KIDDIELAND** brand contributes to higher recognition amongst customers globally and lower marketing costs. Therefore, we believe that maintaining and enhancing our **KIDDIELAND** brand is critical to expand and retain our base of customers.

Our brand may be adversely affected if our corporate image or reputation is tarnished by negative publicity. Customer complaints or negative publicity about our products quality, delivery times, product returns procedures, customer data handling and security practices, or customer support could have a significant negative impact on our reputation and on the popularity of our brand.

We cannot guarantee that negative reports about our business or our brand will not occur in the future and serious damage to our brand, public image, reputation and business may follow as a result. If we are unable to maintain or enhance our brand image, or if our brand image is damaged by negative publicity or if our brand is no longer accepted by audience, this could have a material adverse effect on our business, financial condition and results of operations.

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Any unauthorised use of our proprietary brand or any other intellectual property rights by competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business and reputation

We regard our brand, trademarks, copyright in our brand **KIDDIELAND** as critical to our success. We have developed **KIDDIELAND** into a strong and well-recognised brand in the toy manufacturing industry since 1998. We believe that many of our customers approach us for our outdoor-and-sports toy products and infant-and-preschool toy products because of our reputation and strong brand image. We also believe that our customers are attracted to our toys because of the high quality of the products designed and developed by our in house team. Our continuing growth of our products therefore depend on our ability to protect and promote our brand, trademarks, copyright and other intellectual property rights.

As at the Latest Practicable Date, we owned 15, one and one registered trademarks in the PRC, Hong Kong and France, respectively as set out in the paragraph headed “II. Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

Unauthorised use of our intellectual property by third parties may adversely affect our business and reputation. For example, competitors and other third parties may imitate our brand or infringe our trademark by using an identical brand name or trademark as us or by creating brand names or inventing keywords that are confusingly similar to ours. It may also be possible for third parties to obtain and use our copyrighted materials, such as our product design and logo, without authorisation. Preventing such unauthorised use of intellectual property is inherently difficult. If we are unable to prevent such unauthorised use, competitors and other third parties may drive customers and consumers away from us, which could harm our reputation and materially and adversely affect our results of operation.

We generally rely on trademark and copyright laws to protect our intellectual property rights. However, the validity, enforceability and scope of protection of intellectual property in toy manufacturing industries could be uncertain. In particular, the laws in certain other countries may not offer intellectual property protection to the same extent as the laws of Hong Kong. In the future, if suspected infringement arises, litigation may be necessary to enforce our Group’s intellectual property rights and to protect our intellectual property. Future litigation could result in substantial costs and diversion of resources.

Developments adverse to our major customers could have an adverse effect on us

We expect that future sales will continue to depend on the success of our customers. In turn, the success of our customers depend on several factors, including but not limited to the consumer preference and market acceptance of our products, the level of discretionary consumer spending in countries in which our customers do business, as well as the distribution channels of our customers. Developments adverse to our major customers or our products could have an adverse effect on us.

If there are any other developments adverse to our major customers such as any significant changes in the operations or financial condition of our major customers, including consolidation or change of ownership, restructuring or liquidation, we may experience a material adverse effect on our business, operating results and financial condition. Any significant changes in the operations or financial condition of our major customers, including liquidity problems or restructuring, could cause us to limit or

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discontinue business with such customers, or require us to assume more credit risk relating to receivables from such customers, which could have a material adverse effect on our business, financial condition and results of operation.

We rely on sales to our customers in North America and Europe

Our customers are located around the world, especially in North America and Europe. During the Track Record Period, sales attributable to markets in North America and Europe represented over 80% of our total revenue in each period.

We estimate that our export sales to North America and Europe will continue to be our major source of income in the foreseeable future. Therefore, our results of operations are largely affected by the level of demand for our products from our customers in North America and Europe which is in turn influenced by a number of factors which are beyond our control, including, amongst others, the economic downturn and change in consumers' willingness to spend money on toys. All these potential events may have a negative impact on our Group's future performance and profitability.

We may incur impairment losses on intangible assets in relation to licensed rights we obtained if the expected cash inflows of our products cannot cover the cost of the relevant licenses rights

Our intangible assets, primarily represent minimum payments of license rights we obtained for the use of various entertainment properties and other intellectual properties in our toy products selling to designated territories, are carried at cost less accumulated amortisation and impairment. As at 30 April 2015, 2016 and 2017, the carrying amount of our intangible assets was HK\$25.7 million, HK\$29.1 million and HK\$29.0 million, respectively. Our licenses are valid for a duration of one to three years. See "Business — Our products brands and licensing arrangement — License arrangement with licensors" for details of our licensing arrangements with our licensors. If we cannot generate sufficient cash inflows to cover the costs of such licenses by selling toy products carrying relevant licensed entertainment properties and other intellectual properties within the duration of the licences, impairment loss on the intangible assets may be recognised. Any recognition of impairment on the intangible assets may have a material and adverse impact on our results of operations.

Our sales may be affected by seasonality

We believe that there is a seasonal pattern in the spending behavior of customers which may affect the results of our operation. Our shipment peak season starts from July to October in which we achieve significant higher sales than other months to meet the Christmas and New Year holiday seasons. Our production peak season starts from May to August each year in order to get prepared for our shipment peak season. For each of FY2015, FY2016 and FY2017, our sales generated in the first half (being May to October) of our financial year accounted for approximately 66.8%, 70.1% and 68.0%, respectively of our total revenue of the respective years.

Any reduction in the sales of our toy products during the peak season may have an adverse material impact on our sales and performance. Furthermore, comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. Due to these seasonal consumption patterns (most of which are outside our control), our operating results and financial condition may fluctuate from period to period.

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We rely on third-party logistic companies to deliver goods to overseas customers and third-party suppliers for warehouse storage services

We use a number of third-party logistic companies to deliver goods ordered by our overseas customers. Interruptions to or failures in these third parties' delivery services could affect the timely or proper delivery of the goods to customers to the designated port or location. These delivery interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, transportation disruptions or labour unrest. If these third-party logistic companies fail to deliver the goods, we may not be able to find alternative logistic companies to provide delivery services in a timely and reliable manner at reasonable costs, or at all. If the goods are not delivered in proper condition or on a timely basis to our customers, our business and reputation could suffer.

Also, we engage third-party supplier for warehouse storage services for some of our inventories in the U.S. Our products may face the risk of theft or damage due to any poor handling by us or the third-party service provider. Any technical interruption in the functions provided by our third-party service providers could have a material adverse effect on the financial condition of our Group.

Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact our operations and may adversely affect our profitability

Like other toy manufacturers, we are subject to the price fluctuation in raw materials used in our manufacturing process. Our cost of inventories accounted for approximately 46.7%, 42.6% and 38.5% of our cost of sales for FY2015, FY2016 and FY2017, respectively. Our primary raw materials include plastic resins, electronic parts, packing and metal parts. If the supply of raw materials is substantially interrupted or reduced or if there are significant increases in the prices we pay for our raw materials or if there are unfavorable fluctuations in the quality of these raw materials, we may incur additional costs to acquire significant quantities of these raw materials to maintain our production schedules and commitment to our customers. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient raw materials when required, the resulting loss of production volume could adversely impact our ability to deliver products to our customers in a timely manner, which could harm our reputation, business, financial condition, results of operations.

Delay in the delivery of raw materials or defect in the raw material supplied to us may materially and adversely affect our business operations

Supplies of raw materials are subject to a variety of factors that are beyond our control, including interruptions in the supplier's business operations, global market supply and demand, industry conditions etc. whereas the quality of raw materials is dependent on the supplier's production capabilities, production facilities and quality control systems. Our ability to complete a purchase order on time for our customers is dependent on the timely delivery and the quality of raw materials. There is no assurance that our suppliers will be able to supply and delivery the required raw materials to us in a timely manner or that the raw materials they supply to us will be not defective or substandard. Any

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delay in the delivery of raw material or any defect in the raw materials supplied to us may materially and adversely affect or delay our production schedule. In such circumstances, we may lose customer's loyalty and confidence. This may also harm our reputation and our results of operations and financial condition may be materially and adversely affected.

An increase in the cost of labour may adversely affect our business, financial condition, results of operations

Our business operations require manual labour work and we had 1,356 employees as at 30 April 2017, of which, over 1,000 of them are engaged in our production. We believe our future performance depends on the ability to sustain cost effectiveness. Our production staff costs accounted for 24.1%, 27.0% and 29.1% of our total costs of sales for FY2015, FY2016 and FY2017, respectively. We cannot guarantee to maintain our labour cost at a relatively stable level. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we fail to implement our expansion plans, our business, financial condition and results of operations would be materially and adversely affected.

We may be subject to liability in connection with industrial accidents at our manufacturing facilities

Due to the nature of our operations, we are subject to the risks of our employees being exposed to industrial-related accidents. We cannot assure that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our production facilities. Under such circumstances, our business and financial performance will be adversely affected.

In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violation of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing could adversely affect our business, financial condition and results of operations.

A material disruption of our operations could adversely affect our business

Our production facilities in the PRC are subject to operation risks, such as the breakdown or failure of our major equipment, power supply or maintenance, natural disasters (including but not limited to earthquake, fire, flood and storm), industrial accidents and the need to comply with the directives of relevant government authorities, which could therefore lead to temporary, permanent, partial or complete shut-downs in operations.

The occurrence of any of these risks in the future may result in a material adverse effect on our results of operations and if continued, our business prospects. We may be required to carry out planned shutdowns of our plants for maintenance, statutory inspections and testing. Our business, financial condition and results of operations may be adversely affected by any disruption of operations at our facilities, whether caused by any of the factors mentioned above or otherwise.

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We may be required to make additional contributions of social insurance fund and/or housing provident fund under PRC national laws and regulations

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), we are required to make social insurance fund contributions and housing provident fund contributions for our employees. During the Track Record Period, we did not make contributions in full for the social insurance fund and housing provident fund for our employees.

As advised by our PRC Legal Adviser, in respect of outstanding social insurance contributions, the relevant PRC authorities may demand us to pay the outstanding social insurance fund within a stipulated deadline and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable to a fine of one to three times the amount of the outstanding contributions. In respect of the outstanding housing provident fund contributions, we may be demanded by the relevant authorities to pay the underpaid amount to the housing provident funds within a prescribed time limit and the relevant authorities may apply to the People's Court for compulsory enforcement if we fail to pay the underpaid amount within such prescribed time. As of the Latest Practicable Date, we have paid and deposited requisite housing provident fund for employees and has made requisite social insurance contributions for employees. Also, we had not received any notification from the relevant authorities demanding payment of the social insurance fund and housing provident fund.

We cannot assure you that we will not be subject to any order to rectify the non-compliance incidents in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding contributions of social insurance or housing provident funds against us, or that we will not receive any claims or subject to any penalties under the applicable laws and regulations.

We are exposed to liabilities relating to environmental and health and safety laws and regulations

Our operations are subject to comprehensive and frequently changing laws and regulations relating to environmental protection and health and safety. If we violate such laws or regulations, we may be required to implement corrective actions and could be subject to civil or criminal fines or penalties or other sanctions. Although expenses related to environmental compliance have not been material to date, we cannot assure you that we will not have to make significant capital or operating expenditures in the future in order to comply with existing or new laws and regulations or that we will comply with applicable environmental laws at all times. Such violations or liability could have a material adverse effect on our business, financial condition and results of operations.

We are subject to the risk of increase in inventories and inventory turnover days and a sudden decrease in market demand for our products may lead to obsolete inventories

As at 30 April 2015, 2016 and 2017, we had inventories of approximately HK\$99.6 million, HK\$91.5 million and HK\$107.5 million, respectively. Finished goods was the largest component of our Group's inventories, representing approximately 46.7%, 48.3% and 41.1% of our total inventories as at 30 April 2015, 2016 and 2017, respectively. Our Group's average inventory turnover days for FY2015, FY2016 and FY2017 were approximately 98 days, 111 days and 136 days, respectively.

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As we operate in an industry that is subject to changing market trends, a sudden decrease in the market demand for our products and the corresponding unanticipated drop in the sales of our products could cause our inventory to accumulate and may adversely affect our financial condition and results of operations. In the event that we fail to properly assess our need and maintain an appropriate inventory level, we may build up excessive inventories. As a result, this may have an adverse impact on our financial conditions and results of operations. For more details on our inventory controls, please refer to the section headed “Business — Inventory control and warehousing” in this prospectus.

We are exposed to credit risks of our customers

Some of our sales of our Group are made on an open account basis with credit terms ranging from 0 to 150 days, depending on customers’ creditworthiness and their business relationship with us. During the Track Record Period, our Group has not experienced any failure to recover trade debts. Should the creditworthiness of our customers deteriorate, we may not receive or receive in time the trade debts due from our customers and our operation and financial position may be adversely affected.

We could be adversely affected as a result of our operations and sale to customers in certain countries that are subject to evolving International Sanctions

Certain countries or organisations, including the U.S., the E.U., the U.N., and Australia maintain economic sanctions targeting the Sanctioned Countries and/or Sanctioned Persons. During the Track Record Period, we had sales to customers in Russia, Ukraine, Lebanon, Egypt, Belarus, Venezuela and Serbia and our revenue derived therefrom in aggregate accounted for approximately 5.9%, 3.0% and 3.7% of our total revenue for each of FY2015, FY2016 and FY2017, respectively. The abovementioned countries are subject to limited restrictions under International Sanctions but not comprehensive sanctions imposed by the U.S., the European Union, the United Nations or Australia. For details of our business operations in the Sanctioned Countries, please refer to the section headed “Business — Business activities in Sanctioned Countries” in this prospectus. We undertake to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any government, individual or entity sanctioned by the U.S., the E.U., the U.N., and Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered, EU-administered or Australian-administered sanctions to the extent such use will be sanctionable. We will not undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders to violate or become a target of International Sanctions. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares. In order to ensure our compliance with these undertakings to the Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, please refer to the section headed “Business — Internal control procedures — Internal control measures relating to our sales to Sanctioned Countries” in this prospectus.

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the E.U., the U.N., Australia and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in or with the Sanctioned Countries and/or with Sanctioned Persons. We can provide no assurance that our future business will be free of risk under International Sanctions implemented in these jurisdictions or that we will conform our business to

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the expectations and requirements of the U.S. authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose International Sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the U.N., the government of the U.S., the E.U., and Australia or any other governmental entity were to determine that any of our activities constitutes a violation of the International Sanctions they impose or provides a basis for a designation of our Company under International Sanctions. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated relevant International Sanctions, or being sanctionable.

In addition, certain states and local governments in the U.S. have restrictions on the investment of public funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries. As a result, concern about potential legal or reputational risk associated with our historical operations with the Sanctioned Countries could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us, despite our commitment not to use the proceeds from the Global Offering in any activity which is sanctionable. Before investing in our Shares, you should consider if such investment would expose you to any risk under the International Sanctions arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

Any change in our tax treatment could reduce our profitability

Our income tax filing positions and consolidated income tax provisions and accruals are based on interpretations of applicable tax law, including income tax treaties between the various countries and regions in which we operate. Significant judgment and the use of estimates are required in determining our provisions for income taxes. Although we believe our tax estimates are reasonable, the final determination of the relevant tax authorities could be materially different from our historical income tax provision and accruals and we may face adverse tax consequences. This could have a material effect on our financial statements in the period or periods for which that determination is made.

Future expansion plans are subject to uncertainties and risks

We have set out our future plans in the section headed "Future plans and use of proceeds" in this prospectus. Whether our future plans can be implemented successfully may be beyond our control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with the environmental laws, rules and regulations, delays in obtaining the necessary licenses and approvals from the government.

There is no assurance that we will be successful in our expansion plans. If we fail to project accurately the time, labour and costs required for implementing our expansion plans, or if we fail to secure sufficient amount of sales order or at all after the expansion, our business and results of operation may be adversely affected.

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Our inability to attract and retain qualified personnel could impair our ability to operate and grow successfully

Our future success will depend to a significant extent on the continued efforts of our senior management team and the dedication of our senior management team has contributed to the stability of our senior management. We cannot assure you that our key employees will not voluntarily terminate their employment with us. The loss of our key employees, in particular Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo, who are together responsible for our overall strategic planning and management, could impair our ability to operate and make it difficult to execute our internal growth strategies. We may not be able to replace such persons with another person of equivalent expertise and experience within a reasonable period of time, with the result that our business may be severely disrupted and our results of operations impaired.

Unexpected power supply shortage, labour shortage and any causes which affect our production facilities or production process may adversely affect our operations

Our revenue is dependent on the continued operation of our production facilities and since most of our production processes are semi-automated or involve the use of machinery, we rely on an adequate and stable supply of electricity. A power outage could disrupt or even result in the halt of our production process and thereby adversely affect our manufacturing yield.

The operations of our production plant were affected to a minimal extent by the control of electricity supply by local utilities provider during the Track Record Period. There is no assurance that contingency measures will be sufficient to deal with any disruptions that may happen in the future, and any prolonged shortage of electricity will cause disruption to our Group's production.

Furthermore, our manufacturing is labour intensive and at times we have experienced labour shortages, especially during our production peak seasons from May to August each year when the demand for our products is high and we need to employ production workers on a temporary basis to meet our production schedule. We cannot assure you that we will not experience any shortage of labour or that the cost of labour in China will not increase in the future. If we experience a shortage of labour, we may not be able to maintain our production volumes. This will in turn adversely affect our business operations and could harm our business performance. In addition, if labour costs increase in the PRC, our production costs will increase and we may not be able to pass these increases on to our customers due to competitive pricing pressures, which could have a material adverse effect on our business, financial condition and results of operations.

We may face disruptions in our information technology systems

We rely on our information technology systems to monitor and control our operations to adjust sales and inventory level to changing market conditions. Consequently, any disruptions in our information technology systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, impair our ability to effectively monitor and control our existing operations and improve our future sales efforts, and thereby materially adversely affect our operating results.

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We may face possible claims over our products which may be defective

Our products may contain latent defects or flaws, any flaws or defects discovered in our products after delivery could result in loss of revenue or delay in revenue recognition, damage to our reputation and our relationship with customers and increased service cost. Any of such occurrence could adversely affect our business, operating results and financial conditions. If our products proved to be defective, we may be subject to claims for compensation and may incur significant legal costs regardless of the outcome of any claims of alleged defect.

Our operation exposes us to various liability claims which may have a material adverse effect on our operating performance

Our operation for subject to various operations risks beyond our control that could result in material disruptions and adversely affect our results of operations. Our equipment operators may be exposed to risks when operating our equipment at our production plants. We may face the risk of loss or damage to our machinery at the factory due to fire, flood, theft or other kinds of accidents in our day-to-day operations. Such events may lead to disruptions and may therefore adversely affect our profitability.

We cannot assure you that casualties or accidents will not occur or that our insurance coverage would be sufficient to cover all our potential losses associated with major accidents. We maintain certain insurance, as set out in the section headed “Business — Insurance” in this prospectus, but certain kinds of losses cannot be insured or insured at a commercially reasonable cost, and our insurance policies are subject to liability limits and exclusions. We may be exposed to claims that are not covered by our insurance, and may incur significant costs which could materially adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

Changes in consumer spending patterns could materially affect our growth and profitability

We operate in a cyclical industry in which changes in economic conditions affect the level of consumer spending on our merchandise. Consumer spending patterns are affected by, among other factors, business conditions, interest rates, taxation, local economic conditions, uncertainties about future economic prospects and shifts in discretionary spending toward other goods and services. Consumer preferences and economic conditions may differ or change from time to time in each market in which we operate. We cannot guarantee that we will be able to maintain our historical rates of growth in net sales and net income, or remain profitable, particularly if the retail environment is stagnant or declines. Further, a recession in the general economy or uncertainties regarding future economic prospects could affect consumer spending habits and have a material adverse effect on our financial condition and results of operations.

We face increasing competition in the toy manufacturing industry

According to the CIC Report, the toy market, in particular in the U.S., expanded at a moderate speed from 2012 to 2016, and is expected to experience an accelerated growth in the foreseeable future. CIC predicts that since the number of children between 0 and 4 years old is expected to increase between 2016 and 2021 at a bigger rate than the period from 2012 to 2016, the market segment is expected to be boosted during this period. We believe that our customers place considerable emphasis on

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price, quality, reliability of timely delivery and the ability of the manufacturers to meet their specific requirements. However, we may encounter increased competition in the toy manufacturing market from existing competitors or from new market entrants. There is no assurance that we can maintain our competitive edges over our competitors. Failure to maintain our competitive position may materially adversely affect our business, financial condition, results of operations and prospects.

Increased competition could result in pricing pressure and loss of market share

The toy manufacturing industry is highly fragmented. Competition in this sector especially in China may increase according to CIC Report because more established domestic brands are about to emerge to provide more high quality toys. Our **KIDDIELAND** brand and our third party licensed brand compete with other local, national and global brands. Some of our competitors may have greater financial, marketing, management and other resources than we do. We cannot assure you that our strategies will remain competitive or that they will continue to be effective in the future. Increased competition could result in pricing pressure and loss of our market share, either of which could have a material adverse effect on our financial condition and results of operations.

Any changes in environmental protection and safety laws, rules and regulations may adversely affect our operation

Our business is subject to certain PRC laws and regulations relating to environmental and safety matters. The discharge of waste and pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. In addition, we cannot assure you that any environmental laws adopted in the future will not materially increase our operating costs and other expenses.

We cannot assure you that we will be able to comply with new legislations should the PRC government impose stricter environmental protection standards and regulations in the future. Any increase in production costs resulting from the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have a material adverse effect on our business, financial condition, results of operations or prospects.

Changes in economic condition may have adverse impact on demand of our products as they are not basic necessity and are sensitive to economic changes

During the Track Record Period, our products were sold to over 70 countries around the world. According to the CIC Report, the global toy market was expanded at a moderate speed from 2012 to 2016. Due to the favorable economic condition in the foreseeable years, the market growth is expected to be accelerated. Under this circumstance, parents have become more willing to spend more money to purchase toys for their children. As our toy products are sensitive to general and local economic conditions, the demand of our customers may be affected by any adverse changes in economic conditions (such as economic downturns) globally. Any downturn in the global economy in general could reduce our customers' demand for the toy products we sell and it may have material adverse impact on our business, financial condition and results of operations.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the political, economic and social conditions, laws, regulations and policies in the PRC may have an adverse effect on us

Substantially all of our manufacturing activities are conducted in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social developments in the PRC. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC government continues to play a significant role in regulating industry development for example by imposing industrial policies and exercising significant control over the PRC's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any changes in the PRC government measures may have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government has also recently implemented certain measures, including recent interest rate adjustment, in an attempt to control the rate of economic growth. These measures may decrease economic activities in the PRC, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Any changes to international trade regulations, quotas, tariffs and duties may affect prices of and demand for our products

During the Track Record Period, our diversified types of customers have covered over 70 countries across six continents under our sales and distribution network. The countries which our products are imported into may from time to time impose additional quotas, duties or tariffs. Any changes to international trade regulations, quotas, tariffs and duties may in turn affect the prices of and demand for our products. We cannot assure you that future international trade regulations, quotas, tariffs and duties will not increase our costs or provide our competitors with an advantage over us. As such, any of the above may have a material adverse effect on the business, financial condition and performance of our Group.

There are uncertainties regarding interpretation and enforcement of PRC laws and regulations

Our manufacturing activities are primarily conducted in the PRC and are governed by PRC law, rules and regulations. We are generally subject to laws, rules, and regulations applicable to foreign investments in the PRC. The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and regulations. Prior court decisions may be cited for reference but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime

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after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

PRC regulation of loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make loans to our PRC subsidiary

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiary, including from the proceeds of the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiary cannot exceed the difference between the total amount of investment and the registered capital of our PRC subsidiary or twice the subsidiary's net assets, and such loans must be registered with the local branch of the State Administration of Foreign Exchange 國家外匯管理局 ("SAFE") or filed for record with the relevant information system of the SAFE. Moreover, we may fail to pay up all registered capital of our PRC subsidiary in a timely manner or at all. If we fail to make such payments, our ability to make equity contributions or provide loans to our PRC subsidiary or to fund their operations may be negatively affected, which may materially and adversely affect our PRC subsidiary' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

We may be deemed a PRC "resident enterprise" under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income

On 16 March 2007, the National People's Congress of the PRC promulgated EIT Law, which was effective as of 1 January 2008. Under the EIT Law, an enterprise outside the PRC whose "de facto management bodies" are located in the PRC is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income. On 6 December 2007, the State Council of the PRC issued the Regulation on the Implementation of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), effective as of 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". In April 2009, the State Administration of Taxation of the PRC further specified certain criteria for the determination of what constitutes "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in the PRC and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise's premises where its officers and management departments in charge of routine production and operation management perform their duties are mainly located inside the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting directors or senior management of the enterprise habitually reside in the PRC.

Although there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves), it is uncertain the tax authority will make its decision by reference to the rules for foreign enterprises controlled by PRC companies. Our Company and our non-PRC subsidiaries are currently not treated as a PRC resident enterprise by the relevant tax authorities.

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However, we cannot give any assurance that our Company and our non-PRC subsidiaries will not be considered a “resident enterprise” under the new EIT Law and not be subject to the enterprise income tax rate of 25% on our global income.

Our ability to pay dividends and utilise cash resources in our subsidiary is dependent upon our subsidiary’s earnings and distributions

Our Company is a holding company. Our revenue is generated from our business operations conducted through our subsidiary. Our Company’s ability to make dividend payments and other distributions in cash, pay expenses, service any debts incurred, and finance the needs of other subsidiary, depends upon the receipt of dividends, distributions or advances from our subsidiary. The ability of our subsidiary to pay dividends or other distributions may be subject to their earnings, financial positions, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements. These restrictions could reduce the amount of dividends or other distributions that our Company receives from our subsidiary, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. Our Company’s future declaration of dividends may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

Government control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively

Substantially all our costs are denominated in Renminbi and Hong Kong dollars, while our sales are mainly denominated in U.S. dollars and Hong Kong dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch or a competent bank is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares, and an active trading market may not develop

Prior to the Global Offering, no public market existed for our Shares. The Offer Price may differ significantly from the market price for our Shares following the Global Offering. There can be no assurance that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the initial offer price.

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The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offering

Factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may materially and adversely affect the prices of shares, and as a result investors in our shares may incur substantial losses.

Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible assets value per Share if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Future sale or major divestment of shares by any of our substantial shareholders could adversely affect the prevailing market price of our Shares

Our Shares held by certain substantial shareholders are subject to certain lock-up periods, the details of which are set out in the section headed “Underwriting” in this prospectus. However, we cannot give any assurance that after the restrictions of the lock-up periods expire these shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

The market price of our Shares when trading begins could be lower than the Offer Price

The initial price to the public of our Shares sold in the Global Offering will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until the Listing Date. Investors may not be able to sell or otherwise deal in the Shares until the Listing Date. As a result, holders of our Shares are subject to the risk that the price of our Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur during that period.

Shareholders’ interests in our Company may be diluted in the future

Our Company may issue additional Shares pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then

RISK FACTORS

(i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution and reduction in their earnings per Share; and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of our Shares of the existing Shareholders.

Investors should not place undue reliance on facts, forecasts and other statistics in this prospectus relating to the economy and our industry obtained from official resources

Facts, forecasts and other statistics in this prospectus relating to the economy and the industry in which we operate our business on have been collected from materials from official government sources. We cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriters or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts and statistics while making investment decisions.

Investors should not place undue reliance on information in this prospectus which is not factual but hypothetical in nature such as analyses based on assumptions

Information in this prospectus which is not factual but hypothetical in nature including but not limited to any sensitivity analysis on our historical financial data is based on assumptions and is for reference only and should not be viewed as actual effect. Such information by no means reflects our Group's historical experience and financial results. Prospective investors should not place undue reliance on such information.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

RISK FACTORS

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

CONTINUING CONNECTED TRANSACTION

Our Group has entered into a connected transaction with our connected person which is expected to continue after the Listing and which will, upon Listing, in accordance with Rule 14A.76(2) of the Listing Rules, constitute a continuing connected transaction under the Listing Rules which is subject to the announcement, disclosure and annual review and reporting requirements under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.105 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transaction. Further information on such continuing connected transaction and the said waiver are set forth in the section headed “Connected transaction” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Sole Global Coordinator (for itself on behalf of the Underwriters) and our Company on or before the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator. Further details of the Underwriter(s) and the underwriting arrangements are set out in the section headed “Underwriting — Underwriting arrangements and expenses” in this prospectus.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering”, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” and on the relevant Application Forms.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to (i) the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the exercise of any options that were granted or may be granted under our Share Option Scheme.

No part of the equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the tax implications of subscription for, purchasing, holding, disposing of and dealing in our Shares. It is emphasised that none of our Group, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of our or their respective directors, agents or advisors or any other person involved in the Global Offering accepts responsibility for the tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of, or dealing in our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands.

Dealings in our Shares registered in the share register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

OVER-ALLOTMENT OPTION AND STABILISATION

In connection with the Global Offering, Huajin Securities (International) Limited, its affiliates or any person acting for them, as stabilising manager (the "**Stabilising Manager**"), may effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for them, to conduct any such stabilising action.

In connection with the Global Offering, our Company is expected to grant to the International Underwriter(s) the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (for itself and on behalf of the International Underwriter(s)) no later than 30 days from the last day for lodging applications under the Hong Kong Public Offering.

Further details with respect to stabilisation and the Over-allotment Option are set out in the sections headed "Structure and conditions of the Global Offering — Stabilisation" and "Structure and conditions of the Global Offering — Over-allotment Option" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set out in the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and conditions of the Global Offering" in this prospectus.

ROUNDING

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

WEBSITE

The contents of any websites mentioned in this prospectus do not form a part of this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in any event of any inconsistency, the Chinese versions shall prevail.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Lo Shiu Kee Kenneth (盧紹基)	House 29, 56 Repulse Bay Road Hong Kong	Chinese
Ms. Lo Shiu Shan Suzanne (盧紹珊)	Flat A, 15/F The Albany 1 Albany Road Hong Kong	Chinese
Ms. Sin Lo Siu Wai Sylvia (洗盧紹慧)	Flat B, 30/F The Albany 1 Albany Road Hong Kong	Chinese
Mr. Lo Hung (盧鴻)	Flat B, 34/F The Albany 1 Albany Road Hong Kong	Chinese
Ms. Leung Siu Lin Esther (梁小蓮)	Flat B, 34/F The Albany 1 Albany Road Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Ms. Tse Yuen Shan (謝婉珊)	Flat C, 27/F, Block 15A Costa Del Sol, Laguna Verde Hung Hom, Kowloon	Chinese
Mr. Man Ka Ho Donald (文嘉豪)	79 Perkins Road Jardine's Lookout Hong Kong	Chinese
Mr. Szeto Chi Yan Stanley (司徒志仁)	Flat B, 13/F 2 Shiu Fai Terrace Wanchai, Hong Kong	Chinese

For more information on our Directors and members of senior management, please refer to the section headed "Directors and senior management" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	WAG Worldsec Corporate Finance Limited Suite 1101, 11/F, Champion Tower 3 Garden Road, Central Hong Kong
Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager	Huajin Securities (International) Limited Suite 1101, 11/F, Champion Tower 3 Garden Road, Central Hong Kong
Legal Advisers to our Company	<i>As to Hong Kong law</i> Woo Kwan Lee & Lo 26/F, Jardine House 1 Connaught Place Central, Hong Kong <i>As to Cayman Islands law</i> Appleby 2206–19 Jardine House 1 Connaught Place Central Hong Kong <i>As to PRC law</i> Dentons 3/F & 4/F, Block A Shenzhen International Innovation Center No. 1006, Shennan Boulevard Futian District, Shenzhen Guangdong, China <i>As to US law</i> Nixon Peabody LLP 50/F, Bank of China Tower 1 Garden Road Hong Kong <i>As to England and Wales law</i> Mills & Reeve LLP Botanic House, 98–100 Hills Rd Cambridge CB2 1PH <i>As to European law</i> Graf von Westphalen Poststrasse 9–Alte Post 20354 Hamburg Germany <i>As to sanction laws of U.S. and U.N.</i> Herbert Smith Freehills New York LLP 14/F 450 Lexington Avenue New York, NY10017 USA <i>As to sanction laws of E.U.</i> Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG United Kingdom <i>As to sanction laws of Australia</i> Herbert Smith Freehills, an Australian partnership ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisers to the Sole Sponsor and
the Underwriters**

As to Hong Kong law

Deacons

5/F, Alexandra House
18 Chater Road
Central
Hong Kong

As to PRC law

Jingtian & Gongcheng

34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District, Beijing

Auditor and Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants
22/F Prince's Building
Central, Hong Kong

Tax Consultant

RSM Tax Advisory (Hong Kong) Limited

29/F, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Property Valuer

LCH (Asia-Pacific) Surveyors Limited

17/F, Champion Building
Nos. 287–291 Des Voeux Road Central,
Hong Kong

Industry Consultant

China Insights Consultancy Limited

10/F, Tomorrow Square
399 West Nanjing Road
Huangpu District, Shanghai
PRC

Receiving banker

DBS Bank (Hong Kong) Limited

11/F, The Center
99 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in Hong Kong	14/F, Bank of America Tower 12 Harcourt Road, Central, Hong Kong
Website address	www.kiddieland.com.hk <i>(information contained in this website does not form part of this prospectus)</i>
Company secretary	Mr. Cheung Ka Cheong (CPA) Room 3408, 34/F Hin Hing House Hin Keng Estate Shatin, New Territories Hong Kong
Authorised representatives	Mr. Lo Shiu Kee Kenneth House 29, 56 Repulse Bay Road Hong Kong Mr. Cheung Ka Cheong Room 3408, 34/F Hin Hing House Hin Keng Estate Shatin, New Territories Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong
Audit Committee	Ms. Tse Yuen Shan (Chairwoman) Mr. Man Ka Ho Donald Mr. Szeto Chi Yan Stanley
Remuneration Committee	Mr. Szeto Chi Yan Stanley (Chairman) Ms. Tse Yuen Shan Mr. Man Ka Ho Donald Mr. Lo Shiu Kee Kenneth
Nomination Committee	Mr. Man Ka Ho Donald (Chairman) Ms. Tse Yuen Shan Mr. Szeto Chi Yan Stanley

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Estera Trust (Cayman) Limited
PO Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

**Hong Kong branch share registrar
and transfer office**

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

Compliance adviser

WAG Worldsec Corporate Finance Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road, Central
Hong Kong

INDUSTRY OVERVIEW

The information that appears in this Industry Overview has been prepared by China Insights Consultancy Limited and reflects estimates of market conditions based publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to China Insights Consultancy Limited should not be considered as the opinion of China Insights Consultancy Limited as to the value of any security or the advisability of investing in the Company. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by China Insights Consultancy Limited and set out in this section has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Lead Manager, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We commissioned CIC, an independent market research and consulting company, to prepare the industry report on the global toy market and China's toy export market. This document contains information extracted from the CIC Report in sections such as "Summary", "Industry Overview", "Business" and "Financial Information". A commission fee of RMB710,000 was paid to CIC pursuant to a service agreement reached by arm's length negotiation. Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent professional market research company with extensive experience in their profession.

BACKGROUND OF CIC

CIC is an investment and financing consultancy founded in Hong Kong, it provides professional industry consulting services across various industries, and its services include industry consulting service, commercial due diligence, strategic consulting, etc. CIC also has offices in Beijing and Shanghai.

CIC Report

In preparing for the report, CIC conducted both primary and secondary research through various resources. Primary research involves interviewing key industry experts and leading industry participants. Secondary research involves analysing data from various publicly available data sources, such as National Bureau of Statistics of China, The World Bank, International Monetary Fund, Organization for Economic Co-operation and Development, UN Comtrade, China Customs, Toys Industry Association, etc. The information and data collected by CIC have been analysed, assessed and validated using CIC's in-house analysis models and techniques. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for reliability and accuracy. On such basis we consider the data and statistics to be reliable.

The CIC report contains a variety of market projections which were produced with the following key assumptions: (i) U.S. and EU's economy and industry development is likely to maintain a steady growth in the next decade; and (ii) related industry key drivers are likely to drive the growth of the toy manufacturing market of China, exporting and retailing market of the U.S. and EU during the forecast period, such as increasing number of children in the U.S, economic development in developing countries, elevated mature degree of the market and production technology development; (iii) there is no extreme force majeure or industry regulation by which the market may be affected dramatically or fundamentally.

INDUSTRY OVERVIEW

Our Directors confirm that, to the best of their knowledge, after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF THE MACROECONOMIC INDICATORS IN THE U.S. AND EU

Gross Domestic Product

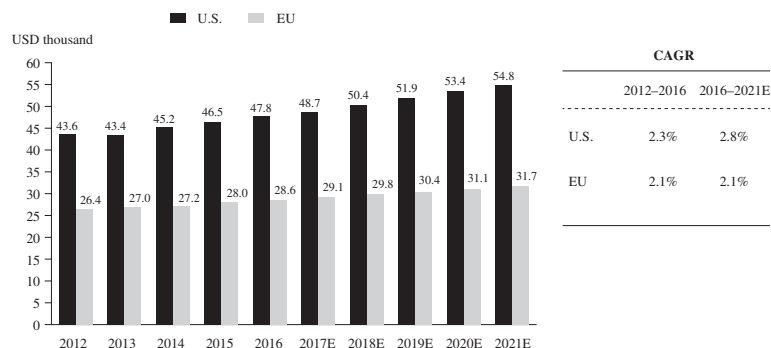
According to CIC Report, the GDP of the U.S. increased from USD16.2 trillion in 2012 to USD18.6 trillion in 2016, while the major debt crisis took place in the Eurozone has heavily damaged the economic development of the EU, the GDP of the EU has decreased from USD17.3 trillion in 2012 to USD16.5 trillion in 2016. As the environment in the U.S. is still improving and the crisis in the EU has basically been eased, the GDP of the U.S. and the EU is expected to reach USD22.8 trillion and USD19.6 trillion by 2021, respectively.

Per capita disposable income

Despite the unfavorable economic environment of the U.S., the per capita disposable income of the U.S. has grown steadily, increasing from USD43.6 thousand to USD47.8 thousand with a CAGR of 2.3% between 2012 and 2016. As the macroeconomic environment will be further optimized for the U.S., in the foreseeable future, the per capita disposable income of the U.S. is expected to further increase with an accelerated speed and reach USD54.8 thousand by 2021.

Between the U.S. and EU, people in the U.S. enjoy higher per capita disposable income. The chart below shows the annual average per capita disposable income for the U.S. and EU from 2012–2021.

Per capita disposable income of the U.S. and EU, 2012–2021E



Source: Organization for Economic Co-operation and Development, CIC

OVERVIEW OF THE TOY MARKET IN THE U.S. AND EU

Market demand for toys correlates to the number of children as well as the general economic conditions, which directly affects the per child annual expenditure on toys. According to the CIC Report, between 2012 and 2016, the total number of children between 0 and 14 years old in the U.S. remained barely unchanged and those in the EU decreased slightly.

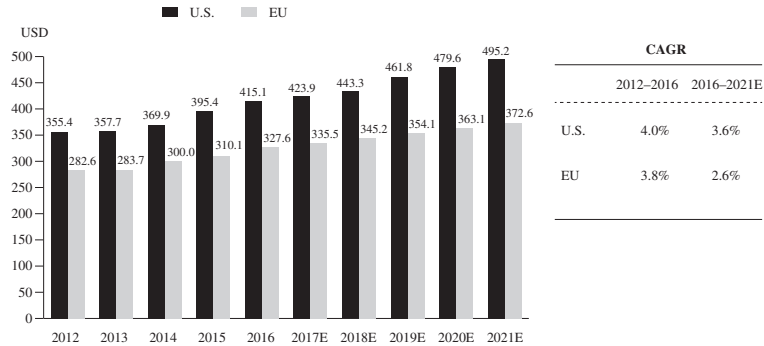
According to the CIC Report, the total number of children in the U.S. between 0 and 4 years old is expected to increase at a more rapid speed from 2016 to 2021 while the total number of children in the EU may reduce further.

Between the U.S. and EU, parents in the U.S. spend more money on toys for their kids on average. Since the disposable income of people in the U.S. is expected to increase at an accelerated speed between 2016 and 2021, parents would become more willing to purchase toys for their children. Comparatively, the per child annual expenditure on toys in the EU is lower than that of the U.S., due to

INDUSTRY OVERVIEW

the lower level of disposable income. Between 2012 and 2016, despite the economic fluctuation of the EU countries, the per child annual expenditure on toys still managed to maintain a steady growth as parents are willing to and capable of purchasing more toys for their children.

Per child annual expenditure on toys in the U.S. and EU, 2012–2021E

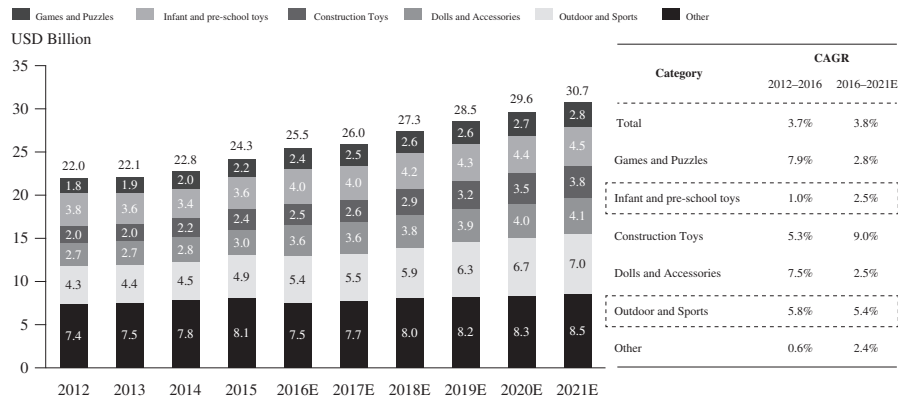


Source: United Nations Department of Economic and Social Affairs, CIC

Market size and forecast of the toy market in the U.S.

According to the CIC Report, the toy market of the U.S. expanded at a moderate speed from 2012 to 2016, and it is expected to experience an accelerated growth in the foreseeable future. Within the toy market of the U.S., outdoor-and-sports toy products take the largest share. The market expansion of infant-and-preschool toy products was not ideal between 2012 and 2016 primarily because of the limited number of new born kids. CIC predicts that since the number of children between 0 and 4 years old is expected to increase between 2016 and 2021, this market segment is also expected to be boosted during this period.

Market size and forecast of the toy market by retail sales revenue, U.S., 2012–2021E



Source: Toy Industry Association, CIC

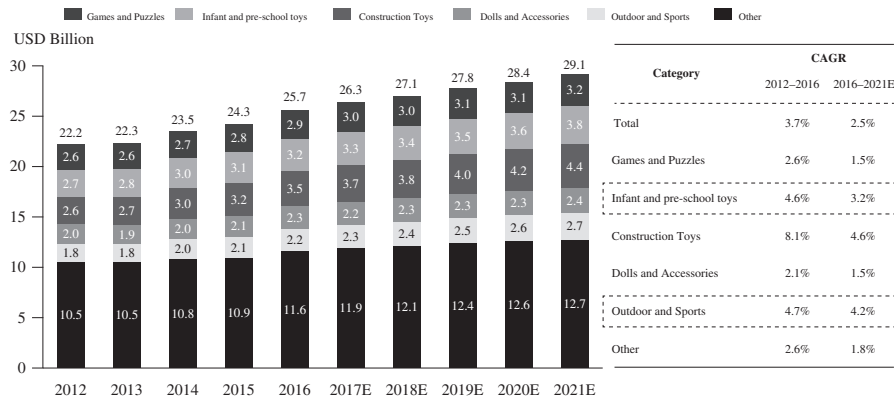
According to the CIC Report, the segment growth of the outdoor-and-sports toy products was rapid between 2012 and 2016 due to the increasing awareness of the parents in the U.S. about the prevalence of obesity and they have taken initiative to encourage their children to play with outdoor-and-sports toy products. Further, since parents of the U.S. have started to pay more attention to the cultivation of the creative and manipulative capabilities of their children, construction toys have experienced the most rapid growth between 2012 and 2016, and this trend is expected to be maintained. According to the CIC Report, the number of children between 0 and 4 years old is expected to increase between 2016 and 2021 and as a result this market segment is also expected to be boosted during this period.

INDUSTRY OVERVIEW

Market size and forecast of the toy market in the EU

The toy market of EU countries has experienced moderate growth between 2012 and 2016 which was mainly caused by both the unfavourable economic condition and the reducing number of children during this period. CIC predicts that, accompanied with the recovery of the economic condition, the toy market of EU between 2016 and 2021 is predicted to experience further growth, despite the decreasing number of children between 0 and 4 years old.

Market size and forecast of the toy market by retail sales revenue, EU, 2012–2021E



Source: CIC

Compared with the toy market of the U.S., the shares of each market segment of EU countries are more evenly distributed. Categories of toys such as games and puzzles, infant-and-preschool toy products, as well as construction toys have taken the largest shares in this market, and such market structure is not expected to vary significantly during the forthcoming years. The market segments of construction toys, as well as outdoor-and-sports toy products have experienced the most rapid expansion between 2012 and 2016. Furthermore, since EU parents would continue to encourage their children to play with these two kinds of toys, these two market segments is expected to grow rapidly between 2016 and 2021.

Import value of toys of the U.S. and EU

According to the CIC Report, imported toys have taken a considerable share in the U.S. and EU toy markets. The market structure is not expected to change significantly, as major toy manufacturers would still continue to produce high value added toys domestically. The import value of toys highly depends on the prosperity of the local toy market. Since the development of the toy market of the U.S. was fairly limited between 2012 and 2013, the import value of toys basically remained unchanged. Accompanied with the revival of the toy market of the U.S., the import value of toys has also indicated obvious growth from 2014 to 2016. However the import value of toys of EU countries has reduced significantly in 2012 due to the unfavourable circumstance of the economy as well as the toy market. A minor growth trend can still be expected in the forthcoming years, as the toy market of EU is estimated to further develop with a moderate speed.

Major distribution channels of toys in the U.S. and EU

There are four major distribution channels in the toy market of the U.S. and EU. After decades of development, specialty chain stores have become one of the most important distribution channels of toys, especially in the U.S.. Meanwhile, the emergence of online retailers also have a major impact upon the toy market internationally.

INDUSTRY OVERVIEW

Distribution channels	Description
Specialty chain stores	Specialty chain stores are dedicated retailing channels of toys. In most cases, specialty chain stores will be divided into several themes according to the characteristics of their target customers of their products. Although most stores are selling toys with different brands, there are also certain stores exclusively sell toys with only one brand or one theme, such as stores authorized by LEGO or Disney.
Department stores and shopping malls	Department stores and shopping malls form a traditional distribution channel of toys. In most cases, toys are sold in a designated area with other children related products such as children apparels and strollers, etc.
Hypermarkets	Hypermarkets such as Wal-Mart and Carrefour are also important distribution channels for toys. Comparatively, toys sold in hypermarkets are generally cheaper, as most parents are not planned to purchase certain toys when they come to hypermarkets. Furthermore, the variety of toys in hypermarkets is also relatively limited. However, since hypermarkets are more accessible for children, they have contributed considerable revenue for the toy market internationally.
Online retailers	Online retailers are only developed in recent years, but they have swiftly become one of the most important retailing channels internationally. Since it is unnecessary for online retailers to choose a desirable location or hire purchasing guides, considerable cost can be saved. Therefore, the same toy sold by online retailers could be cheaper.
Other retailing channels	Other retailing channels include traditional toy and game stores, souvenir stores in museums and parks, street markets, etc. Currently, traditional toy and game stores still take a fairly large share in the toys market of EU, but its share is quite limited in the U.S..

Market drivers

The main drivers of the toy market in the U.S. include (i) the steady growth of the disposable income of people where parents have become more willing to spend more money to purchase toys for their children whereby annual expenditure range on child of a middle-income married-couple family in the U.S. increased from \$8,990 to \$10,230 in 2011 to \$12,350 to \$13,900 in 2015, on average; (ii) the increasing desire of parents for developing a creative lifestyle for their children in which the market segments of construction toys as well as outdoor-and-sports toy products are expected to experience rapid growth in the forthcoming years; and (iii) the fairly developed IP content related industry which has been a critical driving force for the business of licensed toy manufacturers once a new cartoon or animated movie is launched by Disney or DreamWorks Studio.

In the EU, according to the CIC Report, since the macroeconomic situation of the EU is gradually recovering, the toy market of the EU has witnessed further growth from USD23.5 billion in 2014 to USD25.7 billion in 2016. Accompanied with the elevation of disposable income with a CAGR of 2.1% between 2012 and 2016, parents of EU countries are expected to become more willing to purchase toys for their children, so the development of the toy market of EU would be further boosted. Stronger emphasis on health and body development of children due to an increasing number of children in EU countries have been affected by obesity and the emergence of digitized features of toys are also drivers for the EU toy market.

In China, the annual expenditure on children per China family increased from RMB5,818.3 in 2012 to RMB9,201.0 in 2016, registering a CAGR of 12.1%. Currently Chinese parents are mostly millennial generations (individuals born between 1980 and 2000) who are from only-child family and have different consumption practices and stronger purchasing power, they are more willing to invest on cultivating their children. Therefore, rigid demands of toys have been constantly growing during the past years. Meanwhile, baby boomer in past years and opening of two-child policy also lead to large consumer base, which will impulse sustainable growth of toy market in China.

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Future trends

More innovative toys can be expected to emerge from the U.S. as it has an overwhelmingly technological advantage over the rest of the world. Consequently more toys incorporated with advanced technological elements can be expected to be designed by U.S. based toy manufacturers and popularity of outdoor-and-sports toy products will be further elevated. Also given that a large amount of children have been attracted by TV programs or video games, their parents are increasingly getting worried and they have started to spend more money to purchase attractive outdoor-and-sports toy products, in order to attract their children away from TV cartoons and video games.

In the EU, since the birth rate of EU countries is fairly low and very limited growth has been witnessed in recent years, plenty of parents have started to pay more attention to the social skills of their children. As a result, toys which are suitable to be played by multiple players together would gain more popularity in the toy market of the EU. Although localized toy producers have a relatively strong position in the toy market of EU, they are generally not authorized to produce toys associated with popular animated figures. Therefore, licensed toys would become more popular in the toy market in EU.

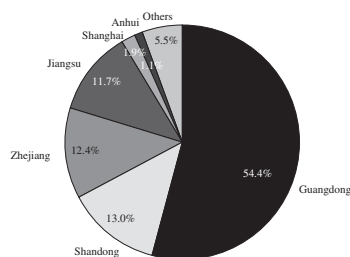
OVERVIEW OF GLOBAL TOY MANUFACTURING INDUSTRY

Globally, toy manufacturers are primarily concentrated in the U.S., EU and China, and China is the largest toy manufacturing country in the world. The majority of toys produced in China are sold to overseas market mainly include the U.S., EU, and South American countries. Since the value added level of Chinese toys is expected to be further elevated, the position of China would be further lifted in the global toy manufacturing industry.

Although the U.S. and EU countries are the largest toy importers in the world, they are also major toy producers for the following reasons:

- (a) nearly all world leading toy manufacturers are based in the U.S. and EU countries. Although they may have part of their products to be manufactured in developing countries, they ordinarily keep certain products, which have the highest value added level, to be manufactured domestically;
- (b) although the cost of certain toys could be lower if they are produced in developing countries, they may generate a high transportation cost, as they are either too heavy or too large; and
- (c) the automatic level of manufacturing plants in the U.S. and EU countries are generally higher than OEM factories in developing countries. Therefore, if the structure of toys is too complicated, the manufacturing cost could be lower if they choose to produce those toys domestically.

Market share of the major toy export provinces and cities in China in 2016



Note: This share is calculated based on the export value of broader category of toys of each provinces and cities.

Source: China Customs

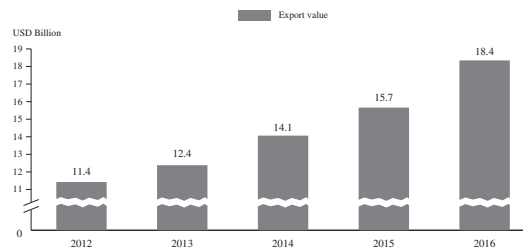
INDUSTRY OVERVIEW

According to the CIC report, the total export value of toys from China was USD18.4 billion during 2016 where the export value of toys of Guangdong, Shandong, Zhejiang, Jiangsu and Shanghai have taken almost 95% of the share in the total export value of toys. From the product aspects, the manufacturing and exporting industry of toys indicates a strong regional characteristic. Electrical and plastic toys are primarily manufactured and exported from Guangdong province; wooden toys are primarily manufactured and exported from Zhejiang; electronic toys are primarily manufactured and exported from Shandong; plush toys are primarily manufactured and exported from Jiangsu and Shanghai. Although China is a major toy manufacturing country, the Chinese toy manufacturing industry is fairly fragmented and the technological and automatic level of most toy manufacturers is still fairly low. Therefore, the Chinese toy manufacturing industry is facing a great opportunity of optimisation and integration.

Total export value of toys from China

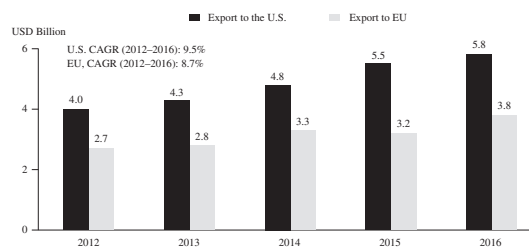
The export value of toys from China to the rest of the world was increased at a moderate speed between 2012 and 2016 due to the unfavourable economic situation in the U.S. and EU. During this period, the Chinese toy export market is primarily driven by the growing demand in developing countries such as Southeast Asian countries and South American countries.

Export value of toys from China, 2012–2016



Source: UN Comtrade database, Guangdong Toy Association, CIC

Export values of toys from China to the U.S. and EU, 2012–2016



Source: UN Comtrade database, CIC

As the largest exporter of toys, the export values of toys from China to the U.S. and EU basically align with the fluctuation trends of the total import values of those countries. Although the market situation was not so ideal during previous years, both the export values of toys from China to the U.S. and EU have started to revive since 2014 and a moderate speed of growth can be expected in the future, despite minor fluctuations. According to the CIC Report, China is the largest toy manufacturing country globally; Guangdong province in particular is one of leading toy producing clusters and largest export province in China with manufacturing activities centered around cities of Shenzhen, Dongguan, Guangzhou, Shantou's Chenghai and Foshan, contributing approximately 60% of total toys export value.

Drivers and future trends of the Chinese toy export market

According to the CIC Report, China has become the largest toy exporter for a fairly long time with approximately 40% in terms of export value of toys worldwide made in China in 2016. The total export value of toys from China increased from USD11.4 billion in 2012 to USD18.4 billion in 2016, registering a CAGR of 12.6%, and the primary exporting destinations are the U.S., EU, Southeast Asian countries and South American countries. Furthermore, due to the industrial transformation and upgrading, both production innovation and technology of China's toy manufacturers hold leading position worldwide and is estimated to maintain this competitive advantage in the forthcoming years and the total export value of China is estimated to grow at a CAGR of 8.5% from 2016 to 2021. In addition, with the recovery growth of economy in US and EU from debt crisis and increasing popularity of toys, especially in licensed toy segment, the domestic market size of US and EU is forecast to grow at CAGRs of 3.8% and 2.5% from 2016 to 2021, respectively, creating steady import demands of toys manufactured in China.

Currently, manufacturing sectors of different types of toys are concentrated in Guangdong, Zhejiang, Jiangsu, Shandong, Fujian and Shanghai, they enjoy a high level of geographical advantage. Under this circumstance, most toy manufacturers do not need to invest too many resources to build up their value chain, so they would be more motivated to compete with each other in terms of the designs and quality of their products.

Factors that drive the growth of Chinese toy export market also include China's long track record of toy export with stable and high quality as well as competitive price. According to the CIC Report, the PRC government has in recent years updated a series of standards and regulations to elevate the quality standards of toys. Since the domestic quality stands of toys are gradually becoming more consistent with the standards of the U.S. and EU countries, the products of more domestic toy manufacturers would become qualified to be exported internationally.

In the future, the CIC Report predicts that since the profit margin of Chinese toy manufacturers is fairly low, more OEM factories will start to establish their own brands. Chinese toy manufacturers are gradually facing pressure from the elevated production cost due to lifted labour cost by the rapid economic development in recent years. Furthermore, since the complexity of toy production has also been elevated, manual laborers are no longer competent enough for complicated manufacturing processes. Therefore, an increasing number of Chinese toy manufacturers will start to adopt more advanced automatic manufacturing facilities in order to reduce the labour cost and enhance the value added level of their products. Currently, certain Chinese toy manufacturers have already started to put more investment on the research and development of toys, more toys with innovative features can be expected to be developed by domestic toy manufacturers. Also, Chinese toy manufacturers will continuously optimise their production lines and strengthen their supervisory mechanisms in order to face the challenges brought by the elevation of quality standards of toys in overseas markets, especially in the U.S. and EU. As a result, the quality of Chinese made toys will be further improved.

Entry barriers of the Chinese toy export market

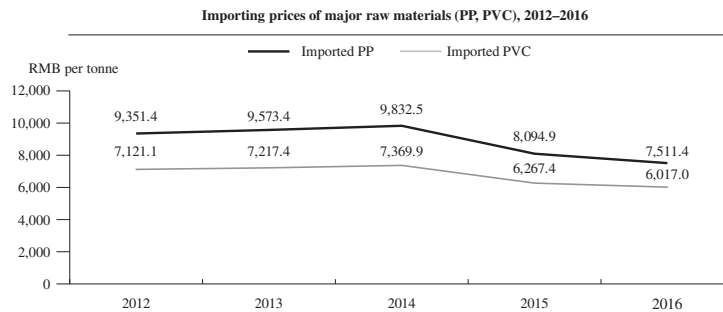
- *Brand strength* — it is a gradual process to establish a well-known brand demanding accumulation of experience and to gain brand recognition from customers, which restricts newcomers from finding their feet within short time;
- *Research, development and innovation capacity* — toy manufacturers are required to possess a strong capacity of innovation in response to varying prevalent trends. An experienced designer team with professional equipment and mature innovation system are required to establish research and development capacity;
- *Sufficient capital* — in order to cover wide range of toys, manufacturers need to have a heavy capital investment in the setting up and operating the production plants such as large injection molding machine, mold making and other production equipment;

INDUSTRY OVERVIEW

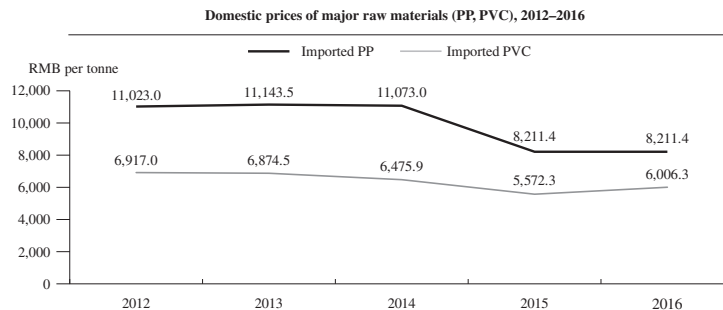
- Safety standard** — toys must comply with safety and environmental regulations in order to protect children’s health and safety. Around the world, the U.S. imposed Toy Safety Certification Program and the EU introduced directives such as RoHS, WEEE, REACH, etc. to ensure the quality of toys meet the safety standard. These large number of safety certification standards become one of barriers for new enterprises.

Price analysis of major raw materials

Plastics including Polypropylene (“PP”) and Polyvinyl Chloride (“PVC”), etc. are one of the most important raw materials to produce toys. PVC is the most widely used plastic resin in toy products of which approximately 25% are made of PVC. The prices of imported PVC and PP have declined from RMB7,121.1 per tonne and RMB9,351.4 per tonne respectively in 2012 to RMB6,017.0 per tonne and RMB7,511.4 per tonne in 2016 despite some small fluctuations. The price trends of domestically produced PVC and PP are quite similar, with the prices of PVC and PP dropping from around RMB6,917.0 per tonne and RMB11,023.0 per tonne in 2012 to around RMB6,006.3 per tonne and RMB8,211.4 per tonne in 2016. According to the CIC Report, as crude oil price has dropped sharply, it is unlikely that the prices of PVC and PP will bounce back in the short term.



Source: UN, China Customs, Chemcp.com, CIC



Source: UN, China Customs, Chemcp.com, CIC

COMPETITIVE LANDSCAPE

Competitors

According to the CIC Report, our Company is one of the top ten leading outdoor-and-sports toy products exporters in China, contributing 1.8% of China’s outdoor-and-sports toy products export value and 7.6% of Guangdong province’s outdoor-and-sports toy products export value in 2016. We ranked seventh in China and ranked second in Guangdong province in terms of outdoor-and-sports toy products export value in 2016.

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The following table sets forth some of the outdoor-and-sports toy products exporters that our Group competes with.

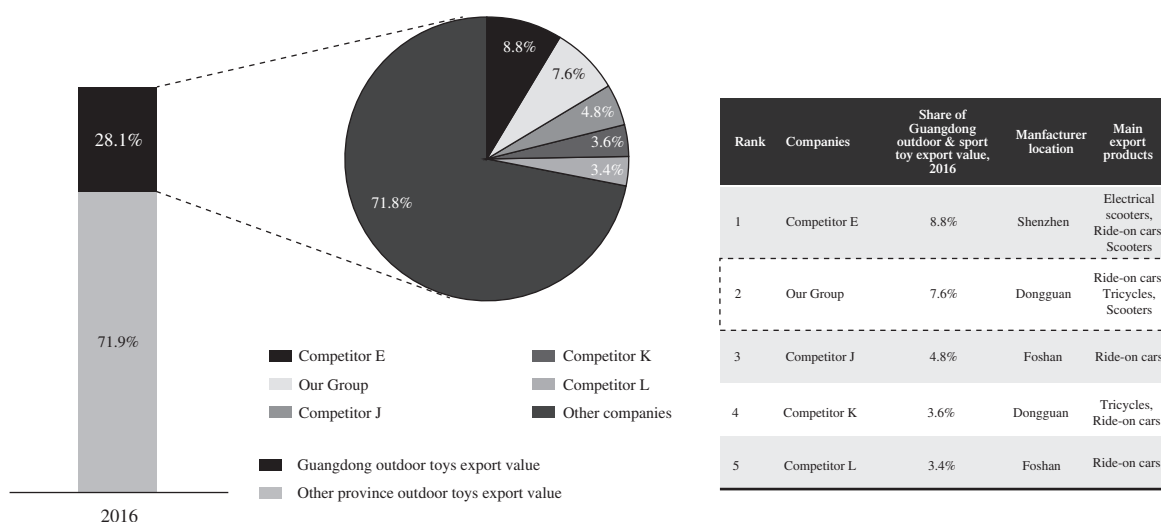
Rank	Companies	Share of China outdoor-and-sports toy products export value, 2016	Manufacturer location	Main export products
1	Competitor A	5.3%	Kunshan	Scooters, Tricycles
2	Competitor B	4.6%	Kunshan	Electrical ride-on cars, Tricycles
3	Competitor C	3.8%	Pinghu	Ride-on cars
4	Competitor D	2.3%	Ningbo	Scooters, Tricycles, Ride-on cars
5	Competitor E	2.1%	Shenzhen	Ride-on cars, Scooters
6	Competitor F	2.0%	Jinhua	Electrical ride-on cars
7	Our Group	1.8%	Dongguan	Ride-on cars, Tricycles, Scooters
8	Competitor G	1.3%	Pinghu	Scooters, Skateboards
9	Competitor H	1.2%	Hangzhou	Tricycles, Ride-on cars
10	Competitor I	1.1%	Lishui	Scooters

Source: CIC

Note: The export value is segmented to different categories based on China Customs' data as well as primary interviews of leading players. The transformation of different classification systems might leads to proper numerical difference compared with the real export data.

The toy manufacturing industry in Guangdong province initiated in the 1980s when the global toy production center transferred from Hong Kong and Taiwan to mainland China and other Asian regions. The outdoor-and-sports toy products export market is highly fragmented with approximately 800 players engaging in outdoor-and-sports toy products manufacturing in China. We are ranked as No. 7 in terms of export value and among the top 10 outdoor-and-sports toy products exporters in China. We are ranked as top three among players who have ride-ons cars as focus products. According to the CIC Report, Guangdong province has played an important role in China's outdoor toy export market. There are approximately more than 200 outdoor-and-sports toy products manufacturers and exporters in Guangdong province and we are ranked second by its export value in 2016.

Top 5 outdoor-and-sports toy products exporters in terms of export value, Guangdong, 2016



Source: CIC

REGULATORY OVERVIEW

A summary of the main laws, regulations and rules applicable to our businesses and operations in the principal jurisdictions we operate our business is set out below.

REGULATIONS IN HONG KONG

As at the Latest Practicable Date, companies within our Group which operates the businesses of our Group in Hong Kong are required to comply with the laws of Hong Kong generally and there are no particular laws or regulations of Hong Kong which are specific to the business of our Group and the industry in which our Group operates in Hong Kong, other than the laws and regulations on product liability and consumer protection as mentioned below.

Laws relating to product liability and consumer protection

There is no comprehensive legislation in Hong Kong governing product liability and consumer protection.

The Toys and Children's Products Safety Ordinance (Chapter 424 of the Laws of Hong Kong) ("TCPSO") imposes a statutory duty on manufacturers, importers and suppliers of toys and children's products to ensure that the goods and products are reasonably safe. Under the TCPSO, all toys and children's products manufactured, imported or supplied for consumption in Hong Kong must comply with one of three sets of safety standards for toys, while children's products must comply with the corresponding standards set out in a schedule to the TCPSO. Under the TCPSO, the Commissioner of Customs and Excise of Hong Kong has the power to serve a recall notice on a person, requiring the immediate withdrawal and retrieval of any toys or children's products which he believes to be unsafe and may cause serious injury.

The Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulation (Chapter 424C of the Laws of Hong Kong) imposes three additional safety standards or requirements for toys and children's products which are, namely, (i) "identification markings" which requires all toys and children's products to carry the full name, trade mark or other identification mark and the local address of the manufacturer, importer or supplier in English, Chinese or both languages; (ii) "bilingual safety warning or caution" which requires that, where a toy or children's product or its packaging is marked with, or where a label affixed to a toy or children's product or its packaging or a document enclosed in its packaging contains, any warning or caution with respect to its safe keeping, use, consumption or disposal, such warning or caution must be legible and in both English and Chinese; and (iii) "concentration of phthalates in toys and children's products" which provides for the control on the concentration limits of six types of phthalates in toys and children's products.

The contracts of the sale of goods in Hong Kong are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) which sets out certain implied conditions and warranties relating to the quality and fitness of the goods supplied, for instance, the goods are of merchantable quality and must correspond with the description.

REGULATIONS IN THE PRC

During the Track Record Period and up to the Latest Practicable Date, our production facilities were situated in Dongguan, Guangdong Province, the PRC. Our operations are heavily governed under relevant PRC laws and regulations. Applicable laws and regulations in relation to our operations which the PRC subsidiaries of our Group are required to comply with are set out below:

Regulations relating to foreign investment

The Wholly Foreign-owned Enterprises Law

The incorporation procedures, approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are also governed by the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) (the “**Wholly Foreign-owned Enterprises Law**”), which was promulgated by the SCNPC and became effective on 12 April 1986. It was amended on 31 October 2000 and 3 September 2016 respectively. The Detailed Implementing Rules for the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》) (the “**Detailed Implementing Rules for the Wholly Foreign-owned Enterprises Law**”) was promulgated by the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部) (the predecessor of Ministry of Commerce of the PRC) and became effective on 12 December 1990, the last amendment of which was made on 19 February 2014 and became effective on 1 March 2014. According to the Wholly Foreign-owned Enterprises Law of the PRC (2016 Amendment) 《中華人民共和國外資企業法》(2016修正), a wholly foreign-owned enterprise whose formation does not involve the implementation of special access management measures as prescribed by the state, its establishment, operation duration and extension, separation, merger or other major changes shall be subject to record-filing. On 8 October 2016, the Ministry of Commerce (商務部) (the “**MOFCOM**”) issued the Interim Measures for Record-Filing Administration of the Establishment and Change of Foreign-Invested Enterprises 《外商投資企業設立及變更備案管理暫行辦法》, which was subsequently amended on 30 July 2017, pursuant to which, the establishment and modifications of foreign-invested enterprises which are not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities.

The Catalogue for the Guidance of Foreign Investment Industries

The Catalogue for the Guidance of Foreign Investment Industries (“**Foreign Investment Catalogue**”, 《外商投資產業指導目錄》), jointly promulgated by the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation in 1995, lists out specific industries and economic activities in which foreign investment in the PRC is encouraged, restricted or prohibited. The current effective Foreign Investment Catalogue was jointly promulgated by the National Development and Reform Commission (國家發展和改革委員會) and MOFCOM on 28 June 2017 and became effective on 28 July 2017.

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Regulations relating to foreign exchange

Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008 respectively, is the fundamental regulation on foreign exchange in the PRC.

These regulations are applicable to all activities related to the foreign exchange receipts and disbursements and transactions of domestic organisations and individuals and to the said activities of overseas organisations and individuals within the territory of People's Republic of China. The foreign exchange incomes of domestic organisations and individuals may be transferred to the PRC or deposited in overseas countries. The conditions and terms for transferring to the PRC or depositing in overseas countries shall be provided by the administration of foreign exchange under the State Council according to the balance of international payments and the needs for foreign exchange control.

According to the Notice of the State Administration of Foreign Exchange on Matters concerning the Issuance of Foreign Exchange Administration Rules for Trade in Goods (《國家外匯管理局關於印發貨物貿易外匯管理法規有關問題的通知》) and its appendix the Guidelines for the Foreign Exchange Administration of Trade in Goods (《貨物貿易外匯管理指引》) (Huifa [2012] No. 38) issued by SAFE on 27 June 2012 and became effective on 1 August 2012, the SAFE, the General Administration of Customs (海關總署) and the State Administration of Taxation (國家稅務總局) (the “SAT”) decided to implement the national foreign exchange administration system reform of trade in goods from 1 August 2012. After obtaining the right to engage in foreign trade, enterprises shall undergo the registration formalities of “Directory of Enterprises for Foreign Exchange Payments and Receipts for Trade” in the local foreign exchange bureau with relevant materials. Enterprises shall declare foreign exchange payments and receipts for trade according to the provisions on the declaration of balance-of-payments statistics and the declaration of information on foreign exchange payments and receipts for trade and fill out the relevant declaration documents based on the flow of foreign exchange payments and receipts for trade. Enterprises shall handle foreign exchange payments and receipts under the principle of “whoever exports collects foreign exchange and whoever imports pays foreign exchange”. Foreign exchange authorities shall divide enterprises into Class A, Class B and Class C according to the results of off-site or on-site checkups and in consideration of enterprises' compliance with foreign exchange administrative provisions.

Regulations relating to processing trade agreement

According to the Provisional Measures for the Management of Examination and Approval of Processing Trade (《加工貿易審批管理暫行辦法》) promulgated by the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部) on 27 May 1999 and effective as from 1 June 1999, operating enterprises (i.e. (i) import and export enterprises or foreign-invested enterprises responsible for signing importing or exporting contracts concerning processing trade; and (ii) processing and assembling companies licensed for processing trade business with imported materials and parts) dealing with processing trade shall apply to the competent Commerce Authority for approval. Processing trade, including Processing of Supplied Materials (來料加工) (“**contract processing**”) and Processing of Purchased Materials (進料加工) (“**import processing**”), means the operation in which all or part of raw materials, accessories,

REGULATORY OVERVIEW

spare parts, components, packing materials in bond are imported, and then processed or assembled by domestic enterprises into finished products for export. The State classifies processing trade import merchandise into prohibited category, restricted category and permitted category, and prohibits processing trade business involving imported materials and parts belonging to the prohibited merchandise category. An operating enterprise must process and export in accordance with a Processing Trade Business Approval Certificate (加工貿易業務批准證). If it is necessary to change some of the particulars of the project due to objective factors, the operating enterprise must report to the original examination and approval authority for its approval before the deadline specified in the Processing Trade Business Approval Certificate, and go through change-related formalities with the Customs.

Pursuant to the Notice of the State Council on the Implementation of Decision of the SCNPC on Authorising the State Council to Temporarily Adjust Certain Administrative Approval Items Prescribed in Laws in Guangdong Province (國務院關於執行《全國人民代表大會常務委員會關於授權國務院在廣東省暫時調整部分法律規定的行政審批的決定》的通知) (“**Notice 9**”) promulgated by the State Council of the PRC on 13 January 2013, the approvals of both the processing trade business and the domestic sales of the bonded imported materials or the exported-oriented manufactured goods of the processing trade business are ceased temporarily in Guangdong Province with a trial period of three years. To this end, the Bureau of Foreign Trade and Economic Cooperation of Guangdong Province (廣東省對外貿易經濟合作廳) and Guangdong Sub-Administration of General Administration of Customs of the PRC (海關總署廣東分署) promulgated the Notice on the Implementation of the Relevant Works of MOFCOM and General Administration of Customs of the PRC on the Reformation of the Approval of Processing Trade in Guangdong Province (《廣東省外經貿廳、海關總署廣東分署貫徹落實商務部海關總署關於廣東省加工貿易審批改革有關工作的通知》) (“**Notice 68**”) on 8 August 2013. According to Notice 68, enterprises in Guangdong Province should conduct the cargo filing procedure of processing trade business in customs with the Certificate of State of Operation and Production Capacity of the Trade Processing Enterprise (《加工貿易企業經營狀況及生產能力證明》) issued by the competent Commerce Authority and relevant documents required by customs.

Pursuant to the Announcement of the Ministry of Commerce and the General Administration of Customs [2016] No. 45 (商務部、海關總署公告2016年第45號) (the “**Announcement 45**”), which is promulgated jointly by MOFCOM and GAC on 25 August 2016 and effective from 1 September 2016, the examination and approval of processing trade contracts as well as domestic sales of bonded imported materials and parts or finished products involved in the processing trade by commerce administrations have been cancelled. Enterprises engaging in processing trade business can request the customs office to establish (modify) the processing trade handbook (account) by presenting the valid Certificate of Operation and Production Capabilities of Processing Trade Enterprises (《加工貿易企業經營狀況和生產能力證明》) (the “**COPCPTE**”) issued by the commerce administration or the Regulatory Commission for Special Customs Surveillance Zones (海關特殊監管區域管委會). The customs office will no longer verify relevant permits, and will establish (modify) the processing trade handbook (account) according to the scope of taxable items specified in the COPCPTE. In the event that commodities prohibited or restricted from processing trade are involved, the enterprise shall go through relevant procedures at the customs office after obtaining the approval document from the MOFCOM.

REGULATORY OVERVIEW

Pursuant to the Opinions on Promoting the Transformation and Upgrading of the Processing Trade (廣東省人民政府《關於促進加工貿易轉型升級的若干意見》) promulgated by People's Government of Guangdong Province on 9 September 2008, People's Government of the Guangdong Province encourages and supports those processing materials factories which line with the state industrial policy, to transform in situ into foreign-funded enterprises or other types of enterprises with qualification of independent legal person.

Regulations relating to taxation

Enterprise Income Tax

Under the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) (the "EIT Law") which became effective on 1 January 2008 and was amend on 24 February 2017, domestic enterprises and foreign invested enterprises are subject to the same corporate income tax law and the same corporate income tax rate of 25%.

According to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 and became effective on 1 January 2007, and the Notice of the State Administration of Taxation on Issuing the Table of Agreed Tax Rates on Dividends (《國家稅務總局關於下發協定股息稅率情況一覽表的通知》) issued by the SAT on 29 January 2008, when an enterprise in PRC distributes dividends to Hong Kong residents who are eligible for receiving such dividends, the Hong Kong residents, if holding more than 25% equity interest in such enterprise of the PRC, are generally levied at an income tax rate of 5% of the total dividends received. Furthermore, the SAT issued the Notice of the State Administration of Taxation on Issues Regarding the Implementation of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) on 20 February 2009, which, among other things, (i) requires non-resident taxpayers or the withholding agent to provide a host of documentary proving that the recipient of the dividends is eligible to enjoy a lower withholding tax rate under a tax treaty, and (ii) empowers the competent tax authorities with the discretion to adjust the preferential tax rate which an offshore entity inappropriately enjoys as a result of a transaction or arrangement the main purpose of which is to obtain the preferential tax treatment.

According to the EIT Law and Guoshuifa [2009] No. 2 (《特別納稅調整實施辦法(試行)》), business transactions between an enterprise and its related parties, shall follow the arm's length principle. In case of a failure to follow such principle which results in a reduction of taxable income, the PRC tax authorities will have the right to make reasonable adjustments. According to the EIT Law, business transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the business transactions are conducted. If the relevant PRC tax authorities determine that the related party transactions have not been conducted on an arm's length basis, they may adjust the taxable income through a transfer pricing adjustment and impose additional taxes on the relevant enterprise, as well as require payment of related interest accrued daily for the tax recovery period beginning from 1 June of the year subsequent to the applicable tax year to the date of payment of the additional taxes. The interest shall be computed at the RMB loan benchmark interest rate announced by the People's Bank of China in the tax year in respect of the additional tax amount for the same period as the tax

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recovery period, plus five percentage points. The five percentage points could be waived if the taxpayer submits relevant materials (including the applicable contemporaneous documents) to the relevant PRC tax authorities pursuant to the EIT Law.

The EIT Law further provides that, where an enterprise submits to the tax authority its annual income tax return, it shall enclose a statement of its annual business transactions effected with its related parties. If the PRC tax authorities conduct an investigation regarding related party transactions, the enterprise and its related parties will be required to provide relevant information to the PRC tax authorities.

Regulations relating to employment and social security

Labor Contract Law

The Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated on 5 July 1994 and became effective on 1 January 1995 and was amended on 27 August 2009, the PRC Employment Contract Law (《中華人民共和國勞動合同法》), which was promulgated on 29 June 2007 and became effective on 1 January 2008 and was amended on 28 December 2012 and became effective on 1 July 2013 and the Implementing Regulations of the Employment Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which were promulgated and became effective on 18 September 2008, regulates the legal relationship between employers and employees. These laws together stipulate the employment contracts, probation and violation penalties, labour remuneration, protection of occupational safety and healthcare, social insurance and welfare, etc. Employers are also responsible for providing their employees with education on occupational safety and healthcare, and necessary labor protective supplies. Written labor contracts must be entered into in order to establish the labor relationship between employers and employees. Employers are also required to pay wages no lower than the local minimum wage standards to their employees.

Social Insurance and Housing Provident Funds

The Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and became effective on 1 July 2011, governs the PRC social insurance system. It requires employers and/or employees (as the case may be) to register social insurance with competent authorities and contribute required amount of social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance.

Under the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999 and subsequently amended on 24 March 2002, all business entities are required to conduct registration with local administrative centre of housing provident funds, maintain their housing fund accounts and pay the funds for their employees.

Regulations relating to intellectual property

Under the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively, a registered trademark includes a trademark for goods, a service mark, a collective mark and a certification mark, refers to a trademark that has been approved and registered by the Trademark Office. The trademark registrants shall enjoy the exclusive right to use the marks, which shall be protected by the law. Any natural person, legal person or other organisation, intending to acquire the exclusive right to use a trademark for the goods produced, manufactured, processed, selected or marketed by him or it, shall file an application for the registration of the trademark with the Trademark Office.

The Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) was promulgated on 12 March 1984, became effective on 1 April 1985, and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 respectively. According to the Patent Law, “invention-creations” in this law shall mean invention patent, utility patent or design patent. Any invention or utility model for which patent right may be granted must possess novelty, inventiveness and practical applicability. Any exploitation of a patent without the authorization of the patentee constitutes an infringement of the patent right of the patentee.

Regulations relating to products quality

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”) was promulgated on 22 February 1993 and was subsequently amended on 8 July 2000 and 27 August 2009. Pursuant to the Product Quality Law, anyone who conducts activities of production and sale of any product within the territory of the PRC must abide by the law. “Product” referred to this law means a product which is processed or manufactured for the purpose of sale. A producer shall be liable for compensation if his defective product causes damage to human life or property other than the defective itself. A producer shall not be liable for compensation if he can prove the existence of any of the following circumstances: (i) the product has not been put in circulation; (ii) the defect causing the damage did not exist at the time when the product was put in circulation; or (iii) The science and technology at the time the product was put in circulation was at a level incapable of detecting the defect.

Regulations relating to import and export

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated on 12 May 1994 and became effective on 1 July 1994, which was subsequently amended on 6 April 2004 and 7 November 2016 respectively, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated on 22 January 1987 and became effective on 1 July 1987, and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016, the Regulations on the Administration of Import and Export of Goods of the PRC (《中華人民共和國貨物進出口管理條例》) promulgated on 10 December 2001 and became effective on 1 January 2002, and the Measures for Record Filing and Registration of Foreign Trade Operator (《對外貿易經營者備案登記辦法》) promulgated on 25 June 2004 and amended on 18 August 2016, any foreign trade business operator engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or an authority authorized

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by the MOFCOM. If a foreign trade business operator fails to go through the formalities for record-filing and registration in accordance with the relevant provisions, customs will refuse to handle the declaration and clearance formalities of its imports and exports.

According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated and became effective on 13 March 2014, imported and exported goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted by the consignor or consignee and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs in accordance with the applicable provisions. After going through the registration formalities with the customs, consignors and consignees of imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

Regulations relating to environmental protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989 and amended on 24 April 2014, enterprises, public institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities. Enterprises and public institutions that discharge pollutants shall each establish an environmental protection responsibility system, and specify the responsibilities of the persons in charge and relevant personnel thereof. Facilities for the prevention and control of pollution in a construction project shall be designed, built and put into production and use together with the principal part of the project. The preparation of relevant development and utilisation plans and the construction of the projects having impact on environment shall be subject to environmental impact assessment in accordance with the law. For any development and utilisation plan, in absence of the environmental impact assessment in accordance with the law, the plan shall not be implemented; for any construction project, in absence of the environmental impact assessment in accordance with the law, the construction of the project shall not be commenced.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended on 2 July 2016, and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價文件分級審批規定》) promulgated by the Ministry of Environmental Protection (環境保護部) on 16 January 2009, the PRC government has established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project. In the event of significant environmental impact, an environmental impact appraisal report shall include a comprehensive appraisal on the possible environmental impact; in the event of slight environmental impact, an environmental impact report shall include an analysis or special appraisal on the environmental impact; and in the event of minimal environmental impact, no environmental impact appraisal is required but an environmental impact form shall be filed. The environmental impact assessment documents should be approved by competent administrative department before starting construction.

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According to the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented on 29 November 1998 and amended on 16 July 2017 and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated on 27 December 2001 by the former State Environmental Protection Administration and amended on 22 December 2010, where a construction project needs matching environmental protection facilities, those facilities must be designed and constructed and must be operational and in use at the same time as the main parts of the project. Construction projects with environmental impact statement or environmental impact report may not be put into production or use before its environmental protection facilities have been found satisfactory on being examined and accepted.

OVERSEAS REGULATIONS

During the Track Record Period, the majority of our products are sold to the U.S., the United Kingdom and other countries in Europe. Our products will have to comply with certain laws and regulations in relation to, among others, product safety and product liabilities in order to be distributed to our customers. According to our legal advisers as to the laws of the United States, the United Kingdom and the European Union (the “EU”), a summary of the laws and regulations of the United States, the United Kingdom and the European Union which are relevant to our Group’s sales are set out as follows:

US laws and regulations

Product Safety

Product Liability Law

In the United States, product liability law is one of the separate and distinct area of law that may apply to product defects or injuries caused by a product. This primary body of law governs a party who designs, manufactures, sells or supplies an offending product, whether that causes an injury or in some cases where there is a likelihood that a product could cause injury. Product liability law governs private litigation of product accidents. It is a body of rules that govern product accidents which had occurred.

There are four basic theories of recovery when dealing with a product alleged to be defective: (i) strict products liability; (ii) negligence; (iii) breach of warranty; and (iv) tortious misrepresentation. A litigant is not limited to one theory in bringing the lawsuit, but rather can assert any and all theories simultaneously. In addition, all of the four theories have broad application to a vast array of products — including children’s toys.

Strict products liability is generally the most common cause of action asserted in lawsuits involving allegedly defective products. This is because, unlike negligence, strict products liability wrongs do not depend on the degree of carefulness by the defendant. The analysis depends solely on the product and whether it was defective at the time it left the hands of the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material way from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration is what makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions. These are generally called failure to warn claims.

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With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he or she will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (1) the defendant owed the plaintiff a duty of due care, (2) the defendant breached that duty by furnishing a defective product, and (3) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phase of getting the product to the public. For example, not only must the product be manufactured with reasonable care, the product must also be designed in a way that is safe when used as intended. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (i.e., safe and non-defective) materials, and assembled with appropriate care to avoid against its negligent manufacture. The product's container or packaging must be adequate (and not itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

The breach of warranty cause of action is governed by contract law. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product he sells and the he should be required to meet the obligation created by the warranty.

For the most part, the law that governs the sale of goods, in general, and warranties, in particular, is uniform from state to state. The law that governs the sale of goods is Article 2 of the Uniform Commercial Code — or, as it is typically referred to, the UCC. The UCC has been adopted in every state. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Finally, tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing tortious misrepresentation are judge-made and vary from jurisdiction to jurisdiction.

REGULATORY OVERVIEW

Product Safety Regulations

The second body of law is product safety law. The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission (“CPSC”), an administrative agency of the United States federal government that regulates certain classes of products sold to the public. Children’s toys and infant care products fall under its jurisdiction. Product safety law operates *ex ante*, meaning that it seeks to prevent product-caused accidents and diseases before they occur.

The Consumer Product Safety Improvement Act of 2008 (“CPSIA”) was passed by Congress in 2008. The CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into distributed in the United States. Products imported into the U.S. which fail to comply with CPSIA’s requirements are subject to confiscation and the importer and/or distributor in the U.S. is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with U.S. Customs agents, its jurisdiction does not extend beyond the territorial limits of the United States.

Under the CPSIA, a “general conformity certification” is required for any consumer product imported into the U.S. that is subject to a consumer product safety rule issued under the Consumer Product Safety Act, or a similar rule, standard, regulation, or ban issued by the CPSA or under any statute issued by the commission. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the commission. Such laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

The CPSIA specifies that certification must be based on a “test of each product or a reasonable testing program.” The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to United States Customs. And, if requested by the commission, a copy must be furnished to the CPSC. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Children’s Products Safety Standards

The CPSIA made many changes in regulating children’s products, including imposing lower lead-concentration limits on all parts of children’s products, limiting the levels of phthalates in children’s toys and in certain other child-care articles, and requiring that children’s products be tested before sale. Moreover, the CPSIA created a new federal toy safety standard by incorporating, by reference, an existing industry standard, known as ASTM F963. ASTM F963 is an industry standard published by the American Society of Testing and Materials (ASTM). ASTM F963 creates performance standards and test methods for a range of potential risks in toys and children’s products, including sharp edges, small parts, lead paint and other toxicity concerns, and electrical hazards. Because of all the new requirements applicable to children’s products, it is critical for importers to understand the definitions for children’s products, toys, and child-care items, and whether the products they are producing fall under the definitions.

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Under the CPSIA, a “children’s product” is defined as “a consumer product designed or intended primarily for children 12 years or younger.” “Children’s toys” are defined as products “designed or intended by the manufacturer for a child 12 years of age or younger for use by the child when the child plays.” A “child-care article” is defined as “a consumer product designed or intended by the manufacturer to facilitate sleep or the feeding of children age 3 and younger, or to help such children with sucking or teething.” The term “children’s product” applies to a number of toy safety provisions, while the terms “children’s toys” and child-care article” appear to be specific to the phthalate provision in the CPSIA.

As of 12 January 2012, the CPSC began enforcement of the third party testing and certification requirements for an outright ban on certain phthalates, commonly a component of soft plastic items, in toys and child care articles manufactured after 31 December 2011 and, for the most part, a total lead limit of 100 parts per million (“**ppm**”) in such products. Further, the CPSIA regulates the concentration of lead (no more than 0.009 per cent) in paint or surface coatings of children’s products manufactured after that date. Civil penalties can be as high as US\$8,000 per single violation and US\$15 million for a related series of violations. Proper third party testing and certification for the presence of lead, phthalates or other regulated chemicals requires that manufacturers use a reputable laboratory, experienced with validated testing protocols accepted in the United States.

In addition to general conformity certification and third-party testing for certain issues, the CPSIA mandated tracking labels beginning in August 2009 for those products considered “children’s products.” Specifically, the CPSIA requires that “the manufacturer of a children’s product shall place a permanent, distinguishing mark on the product and its packaging, to the extent practicable, that will enable the manufacturer to ascertain the location and date of production of the product, cohort information (including the batch, run number, or other identifying characteristic), and any other information determined by the manufacturer to facilitate ascertaining the specific source of the product by reference to those marks.”

California Specific Regulations

In addition to the regulatory scheme imposed on the Federal level and state based claims, it is important to note that state regulations can also control the distribution of imported products into the United States. The most significant of those are California regulations.

California’s Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code section 25249.5 *et seq.*, commonly known as “**Proposition 65**”) requires that a warning be given before any manufacturer or distributor knowingly exposes anyone in California to any of approximately 800 chemicals identified by the state as a carcinogen and/or a reproductive toxicant. Various phthalates which can be used in plastics and vinyl (BBP, DEHP, DBP, DnHP, DIDP, and DINP) are among the chemicals so regulated. Exposures requiring a warning include those that may occur from handling a product or its packaging. This statute and the related regulations apply to all consumer products including medical products and devices, whether or not regulated by the FDA. Under Proposition 65, enforcement for failure to provide an appropriate warning is brought about either by government authorities in California or by private enforcers and may result in fines of up to US\$2,500 per day per item sold. In a wide-reaching settlement of an action involving a variety of phthalate-containing products, dozens of product manufactures agreed, in addition to payment of substantial penalties, to promulgate the so-called “3P standards” (“a maximum concentration, by weight, of DEHP, BBP and

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DBP, each, of 1,000 parts per million (ppm) or less in any poly vinyl chloride, soft plastic, other vinyl or synthetic leather component”). Recent settlements of private enforcement claims have also set 1,000 ppm or 0.1% of weight as the level for various phthalates in non-child focused products, below which a warning is not required. Products that may be used by children could be subject to an even lower level.

Overseas manufacturers are not exempt from these Proposition 65 requirements if their products are sold in California.

Regulations relating to Taxation

Corporate income tax

Corporate income tax is imposed at the federal level on all entities treated as corporations and by 47 states and the District of Columbia. The US corporate income tax (CIT) rate is based on a progressive rate schedule; however, an alternative minimum tax provides for a flat rate with fewer deductions. Certain localities also impose corporate income tax. Corporate income tax is imposed on all domestic corporations.

Transfer pricing

Internal Revenue Code of 1986, as amended

Section 482 of the Internal Revenue Code of 1986, as amended (the “**IRC**”) generally provides that in any case of two or more organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Secretary of the Treasury of the United States or his delegate may distribute, apportion or allocate gross income, deductions, credits, or allowances between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organizations, trades, or businesses. Disclosures related to related party transaction are required to be prepared or submitted to the revenue authority annually along with the company’s U.S. tax return. In general, disclosure of related party transactions including loans, tangible goods, services, and intangibles are required. The statute of limitations on assessment of transfer pricing adjustments is different depending on the situation. Generally, the Internal Revenue Service in the U.S. has 3 years from the tax return filing date to make adjustments. However, if gross income in excess of 25 percent of the gross income stated in the return is omitted, the statute is extended to 6 years. The statute is unlimited if a false or fraudulent return is filed, if a willful attempt to evade taxes is made, or if no return is filed. Transfer pricing penalty of 20 percent or 40 percent of additional tax resulting from adjustments exceeding objective threshold may be imposed.

EU laws and regulations

Product safety

The European legislative framework for toys is Directive 2009/48/EC (the “**Toy Safety Directive**”) of 18 June 2009 which regulates the safety of toys. Under the directive, toys are “products designed or intended, whether or not exclusively, for use in play by children under 14 years of age”.

REGULATORY OVERVIEW

The Toy Safety Directive is intended to provide a common standard for the safety of toys throughout the EU. All toys which are sold within the EU are required to meet the requirements of the Toy Safety Directive and may be sold without being subject to further local legal controls as long as they are legitimately CE marked.

Toy producers, importers, distributors and authorised representatives all have obligations under the EU regulations and must ensure that they take all required steps to protect children from the risk of injury caused by unsafe toys. According to article 4(7) of the Toy Safety Directive, producers shall ensure that the toy is accompanied by instructions and safety information in a language or languages easily understood by consumers. Any producer, importer, distributor and/or authorised representatives (according to the Toy Safety Directive) who places a toy on the market under its own name or trademark or modifies a toy in such a way that compliance with applicable requirements may be affected should be considered a producer and should assume the obligations of a producer.

Product liability

Directive 85/374/EEC lays down the principle concerning liability for defective products for member states (the “**Product Liability Directive**”). It sets out the doctrine that the producer of a product is liable for damages caused by a defect in its products and such damages include death or personal injury and extend to damages that were caused to an asset intended for private use.

Under the directive, a product is defective if it fails to provide the safety which a person is entitled to expect, taking into account all circumstances, including the presentation of the product, the reasonable use of the product and the time when the product was put into market circulation. An injured person carries the burden of proof of the actual damage, the defect in the product and the causal connection between such damage and defect. However, such injured person does not have to prove any negligence or fault of the producer or importer.

The producer will not be held liable under the Product Liability Directive if it can prove that, in particular, (i) the defect did not exist at the time when the product was put into circulation by him or that this defect came into being after the product was put into circulation; or (ii) the state of scientific and technical knowledge at the time when the product was put into circulation was insufficient to identify the defect at that time. However, with regards to (ii) above, the directive states expressly that member states may deviate from that provision and hold the producer liable even if at the time of circulation, the state of scientific and technical knowledge was insufficient to identify the defect.

There are four roles with differing responsibilities for the safety of a product:

- (i) **Producer:** the manufacturer of the toy established in the EU and any other person presenting himself as the manufacturer by affixing to the product his name, trademark or other distinctive mark, or the person who reconditions the product.
- (ii) **Importer:** person in the EU who places a toy from a third country on the market.
- (iii) **Distributor:** a person (other than the importer) who makes a toy available on the market.

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- (iv) Authorised representative: person in the EU acting on written mandate from the manufacturer. The manufacturer must go through a series of checks to assess and ensure that its products conform with the relevant EU Directives.

In general, a producer must place only safe products on the EU market. A product shall be deemed safe if it complies with specific EU requirements, where such requirements exist, and if it conforms to the specific rules of national laws of the member state in whose territory the product is marketed.

Product labelling

There is a requirement for an EC declaration of conformity to be made by the manufacturer. By providing such declaration, the manufacturer certifies and assumes responsibility for compliance of the toy with the essential safety requirements of the Toy Safety Directive. Under EU regulations, a manufacturer is defined as “any natural or legal person who manufactures a product or has a product designed or manufactured, and markets that product under his name or trademark”. The declaration should be translated into the language of the member states in which the product is being sold or made available.

A CE marking shall be affixed only by the manufacturer or his authorised representative. In addition, it shall be affixed only to products to which its affixing is provided for by specific EU harmonisation legislation, and shall not be affixed to any other product. By affixing or having affixed such CE marking, the manufacturer indicates that he takes responsibility for the conformity of the product with all applicable requirements set out in the relevant harmonisation legislation providing for its affixing.

Products for child below age 3 and above age 3

With respect to product safety and quality standards, the EU distinguishes in its regulations between products intended for aged 3 and below and products for aged above 3. The Toy Safety Directive includes specific provisions related to toys which are intended for use by children under age 3. The directive provides an obligation for affixing a warning for toys which might be dangerous for children under 36 months of age. It also provides for particular safety requirements for such toys. According to the requirements, (i) physical and mechanical property toys must be of such dimensions as to prevent from them being swallowed or inhaled; (ii) hazardous substances (nitrosamines and nitrosables) shall be prohibited for use in toys intended for use by children aged 3 and below; and (iii) a toy intended for use by child aged 3 and below must be washable.

United Kingdom laws and regulations

Product Safety

General Product Safety Regulations 2005 (the “**GPSR 2005**”)

The EU Directive 2001/95/EC on general product safety was implemented by the GPSR 2005 in the United Kingdom. The GPSR 2005 imposes criminal liability on producers and distributors of unsafe products in the U.K.. The maximum penalty for the most serious offence is a fine of £20,000 or 12 months’ imprisonment, or both.

REGULATORY OVERVIEW

Under the regulations, a “producer” is the manufacturer of a product and any other person presenting itself as the manufacturer and a “distributor” means a professional in the supply chain whose activity does not affect the safety properties of a product.

The GPSR 2005 stipulates a number of offences, which includes:

- (i) the producer failing to: supply only “safe” products as defined in Regulations; provide consumers with information about risks in a product; adopt measures to stay informed about risks; or take appropriate action, including, where necessary, withdrawal, or recall of products;
- (ii) the distributor being involved in the supply of a product that it knows, or should have presumed, is a dangerous product or failing to participate in the monitoring or product safety; or
- (iii) the producer or distributor failing to notify and/or co-operate with enforcement authorities or comply with a safety notice.

The offence of a producer placing an unsafe product on the U.K. market is a strict liability offence, which the offence is committed once the producer places an unsafe product on the market (even though it does not know at that stage the product is unsafe). The only defence that the producer has is one of due diligence.

Toys (Safety) Regulations 2011 (the “**TSR 2011**”)

The Toy Safety Directive 2009/48/EC was implemented by the TSR 2011. These Regulations apply to manufacturers, authorised representatives of manufacturers, importers and distributors of toys intended for use in play by children under 14 years old. Certain products are expressly excluded e.g. toy steam engines, slung catapults.

Under the TSR 2011, a “manufacturer” is a person who manufactures a toy or has a toy designed or manufactured and who markets that toy under that person’s name or trademark and an “importer” is any person who is established within the EU and who places a toy from a third country on the EU market. A “distributor” is any person who is in the supply chain of a toy, other than the manufacturer or the importer and who makes the toy available on the market.

Manufacturers must comply with the relevant regulations set out in the Regulations including they must ensure that the toys are designed and manufactured to comply with the essential safety requirements, undertaking safety assessment and sample testing, keeping technical documentation, investigating and recording complaints, bringing non-conformity toys into compliance, including the withdrawal and recall if required, notifying authorities if there is a safety risk and co-operating with authorities. Additional safety regulations for toys intended for children under 3 years old. In addition, the manufacturer must draw up an EC declaration of conformity and it (or its authorities) must affix the CE marking to the toy to declare that it has been demonstrated by the applicable conformity assessment procedure that the toy will comply with the essential safety requirements during its foreseeable and normal period of use. The manufacturer must apply information identifying the toy and manufacturer on the toy or packaging (including a model number type or batch number, the identification and address of the manufacturer and any importer).

REGULATORY OVERVIEW

Enforcement action may be taken in cases of non-compliance. Such action may include a compliance notice or a requirement for the toys to be withdrawn from the market or recalled. It is an offence for a manufacturer, authorised representative or importer to supply toys that are subject to the TSR 2011 but do not meet their requirements. Offences may result in fines of up to £5,000, or a maximum prison term of 6 months, or both.

Product liability

Consumer Protection Act 1987 (the “**CPA 1987**”)

The Product Liability Directive 85/374/EEC was implemented by the CPA 1987, which lays down a scheme dealing with civil liability for unsafe goods under which the producer of an unsafe product or, as the case may be, another person in the chain of supply, is held strictly liable in damages with respect to any defect in those goods which causes damage. The primary liability for defective products lies on the producer but there are special provisions for components, persons who market products under their own brand name and importers. In order to meet cases where he cannot identify the producer, the person injured by the product may in the first instance hold liable his immediate supplier, who may then in turn pass liability up the chain of distribution by identifying his supplier, and so on, to the ultimate manufacturer or importer. Liability for damage caused by a defective product does not extend to all damage but only to specified damage.

The CPA 1987 imposes strict liability which means that people who are injured by defective products can sue for compensation without having to prove that the manufacturer was negligent. Liability under the CPA 1987 exists alongside with the liability in negligence, and in some cases a common law claim may succeed where a claim would not be available under the CPA 1987.

Regulatory requirements in EU

REACH

The REACH Regulation 2006 is directly applicable in EU member states. However, each member state must enforce certain provisions of the REACH regime within its own territory. Certain substances (including substances that are carcinogenic, mutagenic or toxic to reproduction) are listed in the regulation as substances of very high concern (“**SVHC**”) and can only be placed on the market in specific circumstances. There is a duty to notify the European Chemicals Agency and provide information to consumers about products containing a concentration of SVHC above 0.1% w/w.

RoHS

The RoHS Directive 2011 has been implemented in England and Wales by the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2012 (“**RoHS Regulations 2012**”). The RoHS Regulations 2012 prohibit producers of electrical and electronic equipment (“**EEE**”) from marketing new EEE in the EU that contains more than the prescribed levels of six hazardous substances, subject to certain exemptions. The RoHS Regulations 2012 require manufacturers to take certain steps before placing EEE on the market (e.g. produce technical documentation, obtain a declaration of conformity and obtain CE marking).

REGULATORY OVERVIEW

WEEE

The WEEE Directive 2012 has been implemented in England and Wales by the Waste Electrical and Electronic Equipment Regulations 2013 (“**WEEE Regulations 2013**”). The waste electrical and electronic equipment places financial responsibilities on producers and distributor of EEE to pay for collection and disposal schemes for WEEE (which currently include toys, leisure and sports equipment). Producers are required to register with (and pay a fee to) a producer compliance scheme to meet these responsibilities. The regulations place various other obligations on producers (e.g. declaration of compliance, records keeping and information provision and labelling requirements including the crossed out wheeled bin system).

Laws and regulations relating to taxation

Resident companies are taxable in England and Wales on their worldwide profits, while non-resident companies are subject to corporation tax of England and Wales on the trading profits attributable to an English or Welsh permanent establishment. The general rate of corporation tax which applies in the tax year of writing is 19%, after which it is scheduled to reduce down to 17% from 1 April 2020. A company usually pays corporation tax by reference to each accounting period and its taxable profits for a given accounting period is the sum of its income profits and chargeable gains, less certain deductible payments that the company makes.

Corporation tax is largely governed by the rules contained within the Corporation Tax Act 2009 and Corporation Tax Act 2010. Companies are subject to self-assessment and will pay corporation tax either in quarterly instalments, or within nine months and one day after the end of the accounting period to which the tax relates.

INTERNATIONAL SANCTIONS

During the Track Record Period, we had sales in connection with Sanctioned Countries in the ordinary course of business. Upon review of the sales to customers in Russia, Ukraine, Belarus, Egypt, Lebanon, Venezuela and Serbia, our legal advisers as to International Sanctions have advised that our historical sales in connection with these countries during the Track Record Period result in a very low risk under International Sanctions our Group, or any person or entity, including our Shareholders, the Stock Exchange, HKSCC or HKSCC Nominees. For details of our business activities in the Sanctioned Countries, please see the section headed “Business — Business activities in Sanctioned Countries” in this prospectus.

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS HISTORY

We are one of the leading toy manufacturers in foot-to-floor ride-ons in the PRC. The business of our Group commenced in 1998 after three of our executive Directors namely, Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo set up Kiddieland Industrial with their own financial resources. We established our manufacturing plant in Dongguan, Guangdong Province, the PRC in 1998. Sales of toy products were mainly made to a Japanese baby products company in the early years of our Group's operation. We later expanded and started designing our own line of infant-and-preschool toy products in-house for sale and distribution under our own brand, **KIDDIELAND**, to our customers from all around the world.

In 2002, we were granted license by Disney for designing, manufacturing and selling ride-ons and rockers with selected Disney entertainment properties for sale and distribution in the USA and Canada. Throughout the years, we were granted similar licenses for ride-ons and other wheeled toys products such as trikes and scooters from Disney for sale and distribution in Western Europe, Latin America and Greater China markets.

Throughout the years, we obtained many different licenses for our toy products (ride-ons and other wheeled toys products) from internationally renowned entertainment conglomerates, such as Thomas & Friends, Paw Patrol and Sesame Street. Our ride-on licensed business grew significantly over the years and according to the CIC Report, we ranked second in Guangdong province and seventh in the PRC among outdoor-and-sports toy products exporters in terms of export value in the year 2016.

Over the years, our Group developed, produced, sold and marketed a wide range of ride-ons, trikes, scooters, other wheeled toys and infant-and-preschool toy products. During the Track Record Period, our sales covered over 70 countries on a global basis, with the USA and Europe as our major market in terms of revenue contribution.

Our Company was incorporated in the Cayman Islands on 3 June 2016 as part of the Reorganisation. Upon completion of the Reorganisation, our Company became the ultimate holding company of our Group. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" of this section.

KEY MILESTONES

Set out below are the key milestones of our Group's business development:

Year	Key milestones
1998	Our manufacturing factory in Tangxia, Dongguan, Guangdong Province was built, occupying a total gross floor area of approximately 27,000 sq.m..
1999	We launched our KIDDIELAND brand and started to manufacture infant-and-preschool toy products.
2000	Toys "R" Us in different European countries and Australia became our customer of infant-and-preschool toy products.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Key milestones
2000	Tesco in the United Kingdom became our customer.
2001	Carrefour in France became our customer of infant-and-preschool toy products.
2002	<p>We started to manufacture trike toys and ride-on toys. Kiddieland Toys was granted licenses from Disney for design, manufacture and sales of ride-ons and rockers with selected Disney entertainment properties in USA and Canada markets and was granted similar licenses from Disney for ride-ons and trikes in European markets.</p> <p>Toys “R” Us in the USA became our customer of ride-ons and other wheeled toys products.</p>
2003	<p>Kiddieland Toys was granted licenses from Disney for design, manufacture and sales of ride-ons and rockers with selected Disney entertainment properties in Latin America markets.</p> <p>Walmart in USA and Canada became our customers of ride-ons and other wheeled toys products.</p>
2004	<p>Kiddieland Toys was granted licenses from Disney for design, manufacture and sales of ride-ons and rockers with selected Disney entertainment properties in Asia Pacific markets.</p> <p>Target in the USA and Costco in Mexico and Canada became our customers of ride-ons and other toys products.</p>
2006	Kiddieland Toys was granted licenses from VIMN for design, manufacture and sales of ride-ons and rockers with selected <i>Dora the Explorer</i> entertainment properties in USA market.
2009	Kiddieland Toys was granted licenses from Marvel Characters B.V. ^(Note) for design, manufacture and sales of ride-ons, scooters and trikes with selected <i>Spiderman</i> entertainment properties globally.
2010	Kiddieland Toys was granted licenses from HIT Entertainment for design, manufacture and sales of ride-ons, scooters and tricycle with <i>Thomas & Friends</i> entertainment properties in the Eastern European market.
2016	Kiddieland Toys was granted licenses by VIMN for design, manufacture and sales of ride-ons, scooters and trikes with <i>Paw Patrol</i> entertainment properties globally but excluding the USA, Australia, New Zealand, Canada and Puerto Rico markets.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Key milestones
2017	Kiddieland Toys was granted licenses from Disney for design, manufacture and sales of infant-and-preschool toy products with selected Disney entertainment properties in USA, Canada, Latin America and a number of European, the Middle East and African markets.

Notes: Marvel Characters B.V., an Independent Third Party, the licensor in the licence agreement pursuant to which we obtained the license to use certain entertainment properties in specified territory. The licensing arrangement between us and Marvel Characters B.V. ended on 31 December 2013 and as at the Latest Practicable Date, we do not have active licensing agreement with Marvel Characters B.V.

CORPORATE DEVELOPMENT AND STRUCTURE

Our Group comprises our Company and 11 subsidiaries, brief particulars of which are set out in the table below:

Name of subsidiary	Place of incorporation/ establishment	Date of incorporation/ establishment	Principal business	Shareholding percentage attributable to our Group
Kiddieland Group	BVI	30 May 2016	Investment holding	100%
Kiddieland Trading	BVI	30 May 2016	Investment holding	100%
Kiddieland Manufacturing	BVI	30 May 2016	Investment holding	100%
Kiddieland Toys	Hong Kong	7 May 2001	Sales and marketing of toys	100%
Kiddieland Industrial	Hong Kong	3 October 1997	Toys development, manufacturing activities and managing the production facilities in Tangxia, Dongguan, Guangdong Province, the PRC	100%
Innotech	Hong Kong	7 August 1998	Merchandising of production materials for toys and providing design services for all graphic design requirements in toys production	100%
W. Great Worth	Hong Kong	30 May 1997	Providing management services to our Group	100%
Kiddieland US	USA	8 June 1999	Import and distribution of toy products in the USA	100%
Kiddieland UK	England and Wales	29 December 1999	Representative office	100%
DG Kiddieland Toys	PRC	18 June 2008	Sale of toy products in the PRC	100%
DG Kiddieland Industrial	PRC	20 January 2014	Manufacturing of toy products	100%

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Company

Our Company was incorporated on 3 June 2016 in the Cayman Islands. At the time of incorporation, our Company had an authorised share capital of HK\$380,000 consisting of 3,800,000 Shares and was owned as to 100% by KLH Capital. On 3 June 2016, one subscriber's Share was issued to the subscriber, which was subsequently transferred to KLH Capital on 3 June 2016. On 23 January 2017, 9,999 Shares were issued to KLH Capital pursuant to the Reorganisation. Please refer to paragraph (l) of the sub-section headed "Reorganisation" of this section below. On 31 August 2017, the authorised share capital of our Company was increased to HK\$1,000,000,000 divided into 10,000,000,000 Shares.

Kiddieland Group

Kiddieland Group was incorporated on 30 May 2016 in the BVI and is an investment holding company of our Group. Kiddieland Group has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for one share in Kiddieland Group for cash at par and Kiddieland Group was then beneficially owned as to 100% by Mr. Victor Lo. Pursuant to the Reorganisation, Kiddieland Group became 100% beneficially owned by the Lo's Family as to 25% by Mr. Kenneth Lo (owning 2,500 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares), 25% by Ms. Sylvia Lo (owning 2,500 shares), 12.5% by Mr. Victor Lo (owning 1,250 shares) and 12.5% by Ms. Esther Leung (owning 1,250 shares) on 23 January 2017 and became the holding company of Kiddieland Trading and Kiddieland Manufacturing holding all the issued shares of both Kiddieland Trading and Kiddieland Manufacturing on the same day. Please refer to paragraph (k) of the sub-section headed "Reorganisation" of this section below. Pursuant to the Reorganisation, Kiddieland Group became a wholly-owned subsidiary of our Company on 23 January 2017 when each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Kiddieland Group to our Company. Please refer to paragraph (l) of the sub-section headed "Reorganisation" of this section below.

Kiddieland Trading

Kiddieland Trading was incorporated on 30 May 2016 in the BVI and is an investment holding company of our Group. Kiddieland Trading has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for one share in Kiddieland Trading for cash at par and on 20 July 2016, Ms. Esther Leung subscribed for one share in Kiddieland Trading for cash at HK\$500. Pursuant to the Reorganisation, on 23 January 2017, Kiddieland Trading first became 100% beneficially owned by the Lo's Family as to 25% by Mr. Kenneth Lo (owning 2,500 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares), 25% by Ms. Sylvia Lo (owning 2,500 shares), 12.5% by Mr. Victor Lo (owning 1,250 shares) and 12.5% by Ms. Esther Leung (owning 1,250 shares) and subsequently became a wholly-owned subsidiary of Kiddieland Group on the same day when each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Kiddieland Trading to Kiddieland Group pursuant to the Reorganisation. Please refer to paragraphs (e), (g) and (k) of the sub-section headed "Reorganisation" of this section below.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Kiddieland Manufacturing

Kiddieland Manufacturing was incorporated on 30 May 2016 in the BVI and is an investment holding company of the Group. Kiddieland Manufacturing has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for one share in Kiddieland Manufacturing for cash at par and on 20 July 2016, Ms. Esther Leung subscribed for one share in Kiddieland Manufacturing for cash at HK\$500. Pursuant to the Reorganisation, on 23 January 2017, Kiddieland Manufacturing first became 100% beneficially owned by the Lo's Family as to 25% by Mr. Kenneth Lo (owning 2,500 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares), 25% by Ms. Sylvia Lo (owning 2,500 shares) 12.5% by Mr. Victor Lo (owning 1,250 shares) and 12.5% by Ms. Esther Leung (owning 1,250 shares), and subsequently became a wholly-owned subsidiary of Kiddieland Group on the same day when each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Kiddieland Manufacturing to Kiddieland Group pursuant to the Reorganisation. Please refer to paragraphs (i) and (k) of the sub-section headed "Reorganisation" of this section below.

Kiddieland Toys

Kiddieland Toys was incorporated on 7 May 2001 in Hong Kong and is principally engaged in sales and marketing activities of our Group.

On 5 June 2001, each of Mr. Kenneth Lo and Ms. Suzanne Lo acquired from the initial subscribers one share in Kiddieland Toys representing 50% interest in Kiddieland Toys at HK\$1.00 per share. On the same day, the total number of issued shares in Kiddieland Toys was increased from two to 10,000 as a result of the allotment of an additional 9,998 shares at the issue price of HK\$1.00 per share, and after such share acquisition and share allotment as mentioned above, Kiddieland Toys became beneficially owned as to 50% by Mr. Kenneth Lo (owning 5,000 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares) and 25% by Ms. Sylvia Lo (owning 2,500 shares). On 17 February 2005, Mr. Kenneth Lo gifted 1,250 shares in Kiddieland Toys to each of Mr. Victor Lo and Ms. Esther Leung and since then and up to immediately prior to the transfer of all the issued shares in Kiddieland Toys by the Lo's Family to Kiddieland Trading pursuant to the Reorganisation, Kiddieland Toys was 100% beneficially owned by the Lo's Family as to 25% by Mr. Kenneth Lo (owning 2,500 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares), 25% by Ms. Sylvia Lo (owning 2,500 shares), 12.5% by Mr. Victor Lo (owning 1,250 shares) and 12.5% by Ms. Esther Leung (owning 1,250 shares).

Kiddieland Toys became a wholly-owned subsidiary of Kiddieland Trading on 23 January 2017 when each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Kiddieland Toys to Kiddieland Trading pursuant to the Reorganisation. Please refer to paragraph (e) of the sub-section headed "Reorganisation" of this section below.

Kiddieland Industrial

Kiddieland Industrial was incorporated on 3 October 1997 in Hong Kong and is principally engaged in toys development and manufacturing activities for orders received from Kiddieland Toys and managing the production facilities of our Group in Tangxia, Dongguan, Guangdong Province, the PRC.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 19 November 1997, each of Mr. Kenneth Lo and Ms. Suzanne Lo acquired from the initial subscribers one share in Kiddieland Industrial representing 50% interest in Kiddieland Industrial at HK\$1.00 per share. On 9 December 1997, the total number of issued shares in Kiddieland Industrial was increased from two to 10,000 as a result of the allotment of an additional 9,998 shares at the issue price of HK\$1.00 per share, and after such allotment, Kiddieland Industrial became beneficially owned as to 50% by Mr. Kenneth Lo (owning 5,000 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares) and 25% by Ms. Sylvia Lo (owning 2,500 shares). On 17 February 2005, Mr. Kenneth Lo gifted 1,250 shares in Kiddieland Industrial to each of Mr. Victor Lo and Ms. Esther Leung and since then and up to immediately prior to the transfer of all the issued shares in Kiddieland Industrial by the Lo's Family to Kiddieland Manufacturing pursuant to the Reorganisation, Kiddieland Industrial was 100% beneficially owned by the Lo's Family as to 25% by Mr. Kenneth Lo (owning 2,500 shares), 25% by Ms. Suzanne Lo (owning 2,500 shares), 25% by Ms. Sylvia Lo (owning 2,500 shares), 12.5% by Mr. Victor Lo (owning 1,250 shares) and 12.5% by Ms. Esther Leung (owning 1,250 shares).

Kiddieland Industrial became a wholly-owned subsidiary of Kiddieland Manufacturing on 23 January 2017 when each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Kiddieland Industrial to Kiddieland Manufacturing pursuant to the Reorganisation. Please refer to paragraph (i) of the sub-section headed "Reorganisation" of this section below.

Innotech

Innotech was incorporated on 7 August 1998 in Hong Kong and is principally engaged in merchandising of production materials for toys and providing design services for all graphic design requirements in our Group's toys production.

On 23 December 2002, Mr. Victor Lo and Ms. Esther Leung acquired from the then shareholders of Innotech (being Independent Third Parties), namely Mr. Ngao To Yeung, Ms. Lee Donna Siu and Mr. Kwok Sui Hung, all their respective shares in Innotech (10,000 shares in total) at the consideration of HK\$1.00 per share and since then and up to immediately prior to the transfer of all the issued shares in Innotech by Mr. Victor Lo and Ms. Esther Leung to Kiddieland Manufacturing pursuant to the Reorganisation, Innotech was beneficially owned as to 50% by Mr. Victor Lo (owning 5,000 shares) and 50% by Ms. Esther Leung (owning 5,000 shares).

Innotech became a wholly-owned subsidiary of Kiddieland Manufacturing on 23 January 2017 when each of Mr. Victor Lo and Ms. Esther Leung transferred all their respective shares held in Innotech to Kiddieland Manufacturing pursuant to the Reorganisation. Please refer to paragraph (j) of the sub-section headed "Reorganisation" of this section below.

W. Great Worth

W. Great Worth was incorporated on 30 May 1997 in Hong Kong and is principally engaged in providing management services to our Group.

On 20 March 2001, Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo acquired from the then shareholders of W. Great Worth (being Independent Third Parties), namely Ms. Chan Kan Kwong Margaret and Mr. Chan Yiu Yuen Freddy, all their respective shares in W. Great Worth (10,000 shares in total) at the consideration of HK\$1.00 per share and since then and up to immediately prior to the

HISTORY, REORGANISATION AND GROUP STRUCTURE

transfer of all the issued shares in W. Great Worth by Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo to Kiddieland Trading pursuant to the Reorganisation, W. Great Worth was beneficially owned as to 33.34% by Mr. Kenneth Lo (owning 3,334 shares), 33.33% by Ms. Suzanne Lo (owning 3,333 shares) and 33.33% by Ms. Sylvia Lo (owning 3,333 shares).

W. Great Worth became a wholly-owned subsidiary of Kiddieland Trading on 23 January 2017 when each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo transferred all their respective shares held in W. Great Worth to Kiddieland Trading pursuant to the Reorganisation. Please refer to paragraph (f) of the sub-section headed “Reorganisation” of this section below.

Kiddieland US

Kiddieland US was incorporated in New York, USA on 8 June 1999 and has been principally engaged in import and distribution of toys product in USA.

On 8 June 1999, each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo subscribed for and was allotted and issued 20 shares in Kiddieland US at the subscription price of US\$10.00 per share. Since then and up to immediately prior to the transfer of all the issued shares in Kiddieland US by Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo to Kiddieland Trading pursuant to the Reorganisation, Kiddieland US was beneficially owned as to one third by each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo (with each of them owning 20 shares).

Kiddieland US became a wholly-owned subsidiary of Kiddieland Trading on 23 January 2017 when each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo transferred all their respective shares held in Kiddieland US to Kiddieland Trading pursuant to the Reorganisation. Please refer to paragraph (g) of the sub-section headed “Reorganisation” of this section below.

Kiddieland UK

Kiddieland UK was incorporated in England and Wales on 29 December 1999 and is principally engaged as a representative office of our Group.

On 6 March 2000, Mr. Kenneth Lo acquired from each of the initial subscriber, their respective one ordinary share in Kiddieland UK at £1.00 per ordinary share. On the same day, the total number of issued shares of Kiddieland UK was increased from two to 100 as a result of the issue and allotment of 98 ordinary shares of £1.00 each to Mr. Kenneth Lo. Since then and up to immediately prior to the transfer of all the issued shares in Kiddieland UK by Mr. Kenneth Lo to Kiddieland Trading pursuant to the Reorganisation, Kiddieland UK was 100% beneficially owned by Mr. Kenneth Lo (owning 100 ordinary shares).

Kiddieland UK became a wholly-owned subsidiary of Kiddieland Trading on 23 January 2017 when Mr. Kenneth Lo transferred all his shares held in Kiddieland UK to Kiddieland Trading pursuant to the Reorganisation. Please refer to paragraph (h) of the sub-section headed “Reorganisation” of this section below.

HISTORY, REORGANISATION AND GROUP STRUCTURE

DG Kiddieland Toys

DG Kiddieland Toys was established in Dongguan City, Guangdong Province, the PRC as a wholly foreign owned enterprise on 18 June 2008 by Kiddieland Industrial as its sole investor with a registered capital of HK\$8,400,000 which had been fully paid up on 26 November 2010. DG Kiddieland Toys is principally engaged in conducting the sales of toy products in the PRC.

DG Kiddieland Industrial

DG Kiddieland Factory was established in Dongguan City, Guangdong Province, the PRC on 9 April 1998 as a contract processing factory (來料加工廠) and thus did not have a legal entity status in the PRC. Its principal activities were manufacturing toy products pursuant to an agreement between 東莞市塘廈鎮鎮聯經貿有限公司 (Dongguan Tangxia Town Zhenlian Jingmao Co., Ltd.) (an Independent Third Party) (the “**PRC Party**”) and Kiddieland Industrial. According to such agreement, Kiddieland Industrial provided production machinery, all the raw material, components and packaging material required and the PRC Party provided factory premises, electricity and labour. Kiddieland Industrial paid processing services fees to the PRC Party, and all finished products were exported to Kiddieland Industrial. In the 1990s, processing enterprise was a popular vehicle for foreign companies to carry out manufacturing activities in the PRC. Recently, the PRC encouraged processing enterprises to transform their operations to foreign-funded enterprises. In 2008, the Dongguan Foreign Trade and Economic Cooperation Bureau (東莞市對外貿易經濟合作局) issued the “Notice concerning the actions required for processing enterprises in Dongguan City to transform into foreign-funded enterprises on the same site without cessation of production” (關於做好東莞市來料加工企業就地不停產轉三資企業有關工作的通知) which stipulated that various government bureaus shall positively support and assist processing enterprises to transform their operation to foreign funded-enterprises on the same site without cessation of production. Such transformation would enable foreign investors to establish limited liability companies at the same site using the same production facilities. Comparing with a processing enterprise, a foreign invested limited liability company is qualified to have a legal person capacity and can have ownership of the production facilities in the PRC. DG Kiddieland Industrial was therefore established to take over all business and operations of DG Kiddieland Factory by way of “transformation on the same site without cessation of production” (就地不停產轉型). As DG Kiddieland Factory’s business has been taken over by DG Kiddieland Industrial, DG Kiddieland Factory will be applying for a deregistration.

DG Kiddieland Industrial was established in Dongguan City, Guangdong Province, the PRC as a wholly foreign owned enterprise on 20 January 2014 by Kiddieland Industrial as its sole investor with a registered capital of HK\$46,000,000 which had been fully paid up on 18 June 2015. On 1 September 2016, the registered capital of DG Kiddieland Industrial increased to HK\$54,000,000 which had been fully paid up on 21 November 2016. DG Kiddieland Industrial is principally engaged in manufacturing of toy products.

HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION

In preparation for the Listing, our Group has carried out the Reorganisation which involved the following steps:

- (a) On 3 June 2016, our Company was incorporated under the laws of the Cayman Islands with an authorised share capital of HK\$380,000 consisting of 3,800,000 Shares. On 3 June 2016, one subscriber's Share was transferred to KLH Capital.
- (b) On 30 May 2016, Kiddieland Group was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued one share in Kiddieland Group.
- (c) On 30 May 2016, Kiddieland Trading was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued one share in Kiddieland Trading and on 20 July 2016, Ms. Esther Leung subscribed for and was allotted and issued one share in Kiddieland Trading.
- (d) On 30 May 2016, Kiddieland Manufacturing was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued one share in Kiddieland Manufacturing and on 20 July 2016, Ms. Esther Leung subscribed for and was allotted and issued one share in Kiddieland Manufacturing.
- (e) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Trading acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of Kiddieland Toys from Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$3,375,253.25, HK\$3,375,253.25, HK\$3,375,253.25, HK\$1,687,626.625 and HK\$1,687,626.625 respectively, which consideration was determined with reference to the unaudited net asset value of Kiddieland Toys as at 31 October 2016. Such consideration was satisfied by the allotment and issue by Kiddieland Trading of 2,400, 2,400, 2,400, 1,249 and 1,249 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.
- (f) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo pursuant to which Kiddieland Trading acquired 3,334, 3,333 and 3,333 shares of W. Great Worth from Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively at the consideration of HK\$33.34, HK\$33.33 and HK\$33.33 respectively, which consideration was determined with reference to the unaudited net asset value of W. Great Worth as at 31 October 2016, which was a negative amount, hence only a nominal consideration was paid.

HISTORY, REORGANISATION AND GROUP STRUCTURE

- (g) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo pursuant to which Kiddieland Trading acquired 20, 20 and 20 shares of Kiddieland US from Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively at the consideration of US\$46,306, US\$46,306 and US\$46,306 respectively, which consideration was determined with reference to the unaudited net asset value of Kiddieland US as at 31 October 2016. Such consideration was satisfied by the allotment and issue by Kiddieland Trading of 100, 100 and 100 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively, all credited as fully paid.
- (h) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo pursuant to which Kiddieland Trading acquired 100 shares of Kiddieland UK from Mr. Kenneth Lo at the consideration of HK\$100, which consideration was determined with reference to the unaudited net asset value of Kiddieland UK as at 31 October 2016, which was a negative amount, hence only a nominal consideration was paid.
- (i) On 23 January 2017, Kiddieland Manufacturing entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Manufacturing acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of Kiddieland Industrial from Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$39,779,182.75, HK\$39,779,182.75, HK\$39,779,182.75, HK\$19,889,591.375 and HK\$19,889,591.375 respectively, which consideration was determined with reference to the unaudited net asset value of Kiddieland Industrial as at 31 October 2016 and adjusted by the deduction of the special dividend of HK\$60,000,000 declared and paid by Kiddieland Industrial on 17 January 2017. Such consideration was satisfied by the allotment and issue by Kiddieland Manufacturing of 2,500, 2,500, 2,500, 1,249 and 1,249 shares in Kiddieland Manufacturing to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.
- (j) On 23 January 2017, Kiddieland Manufacturing entered into a sale and purchase agreement with Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Manufacturing acquired 5,000 and 5,000 shares of Innotech from Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$50 and HK\$50 respectively, which consideration was determined with reference to the unaudited net asset value of Innotech as at 31 October 2016, which was a negative amount, hence only a nominal consideration was paid.
- (k) On 23 January 2017, Kiddieland Group entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Group acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of each of Kiddieland Trading and Kiddieland Manufacturing from Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$43,423,664.625, HK\$43,423,664.625, HK\$43,423,664.625, HK\$21,711,832.3125 and HK\$21,711,832.3125 respectively, which consideration was determined with reference to the aggregate consideration for (i) Kiddieland Trading's acquisition of 100% interest in each of Kiddieland Toys, Kiddieland US, Kiddieland UK and W. Great Worth and (ii) Kiddieland Manufacturing's acquisition of 100% interest in each of Kiddieland Industrial and Innotech.

HISTORY, REORGANISATION AND GROUP STRUCTURE

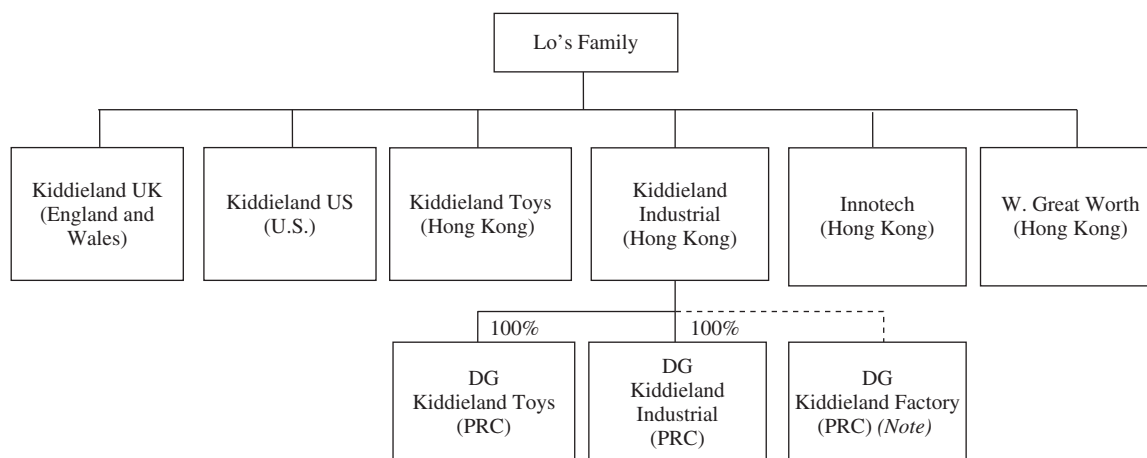
Such consideration was satisfied by the allotment and issue by Kiddieland Group of 2,500, 2,500, 2,500, 1,249 and 1,250 shares in Kiddieland Group to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.

- (l) On 23 January 2017, our Company entered into a deed for sale and purchase with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which our Company acquired from each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Group respectively in consideration of the allotment and issue by our Company of in aggregate 9,999 Shares to KLH Capital credited as fully paid at the direction of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung.
- (m) On 31 August 2017, the authorised share capital of our Company was increased from HK\$380,000 consisting of 3,800,000 Shares to HK\$1,000,000,000 consisting of 10,000,000,000 Shares.

Particulars of the Reorganisation are also set out under the paragraph headed “Corporate reorganisation” in the section headed “Further information about our Company” in Appendix V to this prospectus.

THE GROUP’S CORPORATE STRUCTURE

The following chart sets out the corporate and shareholding structure of our Group immediately before the Reorganisation:



Note: DG Kiddieland Factory did not have a legal entity status and was a contract processing factory (來料加工廠) established on 9 April 1998 according to an agreement between Kiddieland Industrial and 東莞市塘廈鎮鎮聯經貿有限公司 (Dongguan Tangxia Town Zhenlian Jingmao Co., Ltd.) (an Independent Third Party). DG Kiddieland Industrial was established to take over all business and operations of DG Kiddieland Factory by way of “transformation on the same site without cessation of production” (就地不停產轉型). DG Kiddieland Factory will be applying for a deregistration. Please refer to the paragraph headed “DG Kiddieland Industrial” in this section.

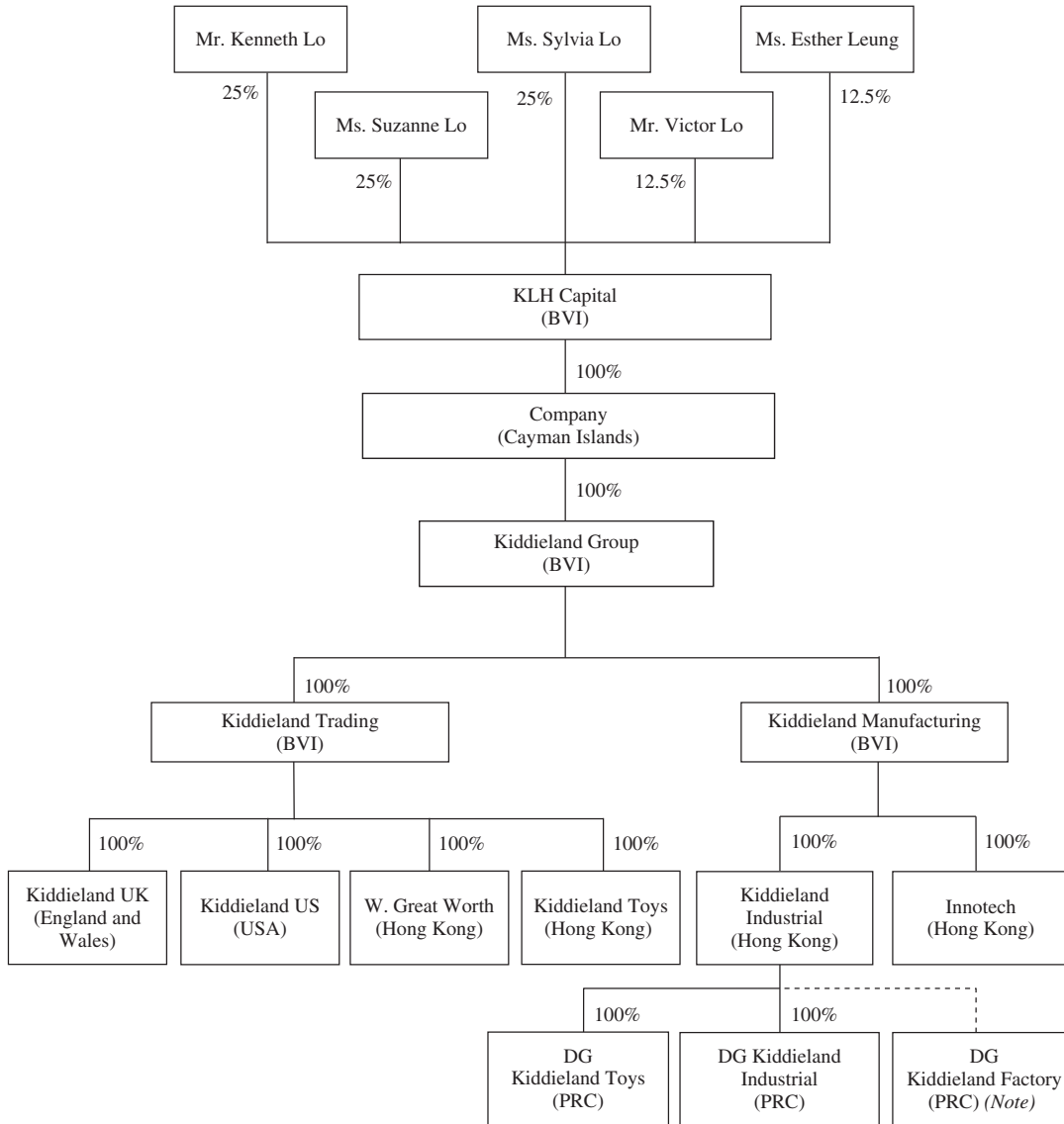
HISTORY, REORGANISATION AND GROUP STRUCTURE

The breakdown of the shareholding of the various companies held by members of the Lo's Family immediately before the Reorganisation are as follows:

Company	Shareholder(s)	Shareholding/equity interest percentage
Kiddieland UK	Mr. Kenneth Lo	100%
Kiddieland US	Mr. Kenneth Lo	33 $\frac{1}{3}$ %
	Ms. Suzanne Lo	33 $\frac{1}{3}$ %
	Ms. Sylvia Lo	33 $\frac{1}{3}$ %
Kiddieland Toys	Mr. Kenneth Lo	25%
	Ms. Suzanne Lo	25%
	Ms. Sylvia Lo	25%
	Mr. Victor Lo	12.5%
	Ms. Esther Leung	12.5%
Kiddieland Industrial	Mr. Kenneth Lo	25%
	Ms. Suzanne Lo	25%
	Ms. Sylvia Lo	25%
	Mr. Victory Lo	12.5%
	Ms. Esther Leung	12.5%
Innotech	Mr. Victor Lo	50%
	Ms. Esther Leung	50%
W. Great Worth	Mr. Kenneth Lo	33.34%
	Ms. Suzanne Lo	33.33%
	Ms. Sylvia Lo	33.33%
DG Kiddieland Toys	Kiddieland Industrial	100%
DG Kiddieland Industrial	Kiddieland Industrial	100%

HISTORY, REORGANISATION AND GROUP STRUCTURE

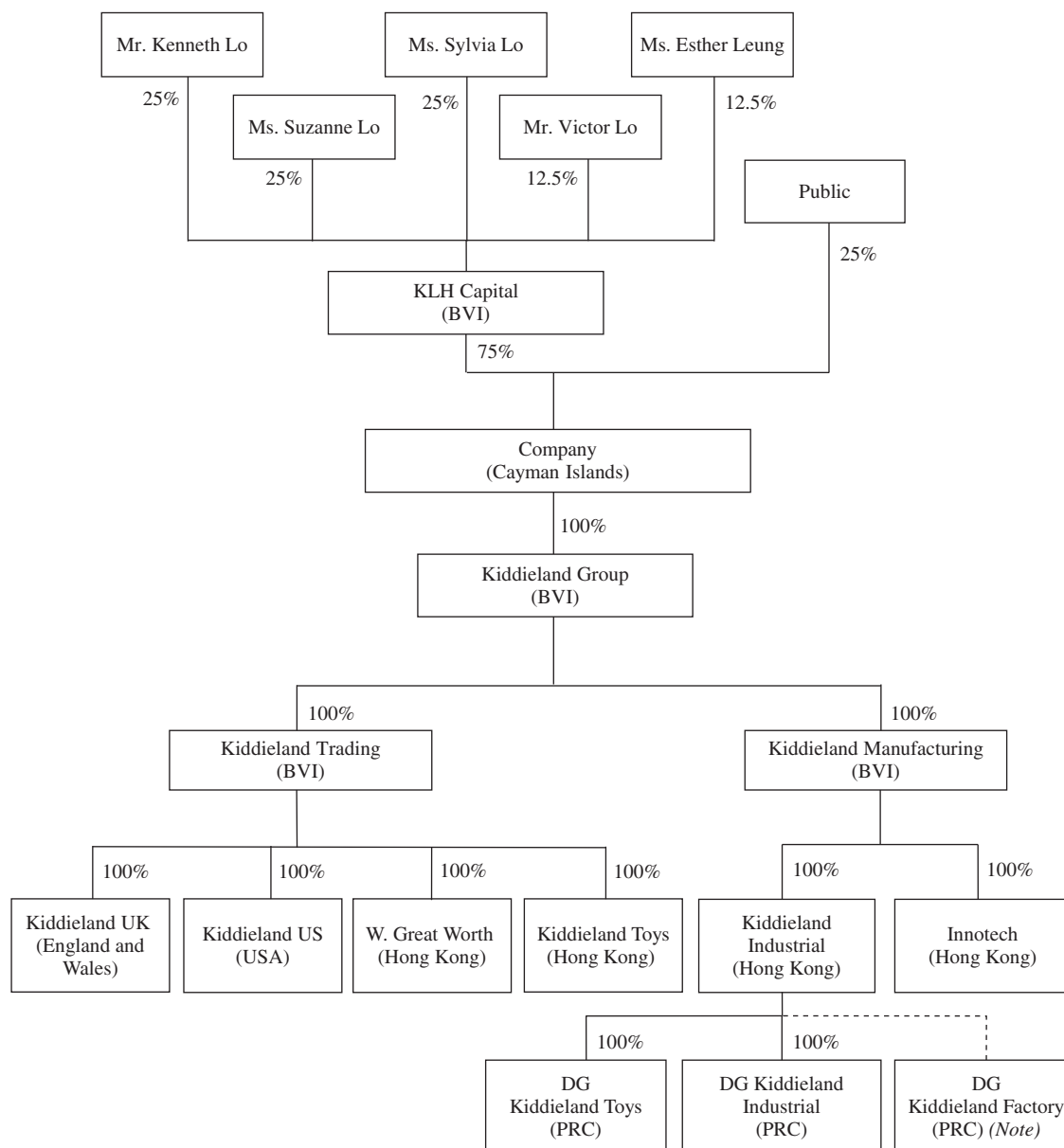
The following chart sets out the corporate and shareholding structure of our Group immediately following completion of the Reorganisation:



Note: DG Kiddieland Factory did not have a legal entity status and was a contract processing factory (來料加工廠) established on 9 April 1998 according to an agreement between Kiddieland Industrial and 東莞市塘廈鎮鎮鎮聯經貿有限公司 (an Independent Third Party). DG Kiddieland Industrial was established to take over all business and operations of DG Kiddieland Factory by way of “transformation on the same site without cessation of production” (就地不停產轉型). DG Kiddieland Factory will be applying for a deregistration. Please refer to the paragraph headed “DG Kiddieland Industrial” in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets out the corporate and shareholding structure of our Group immediately following completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised):



Note: DG Kiddieland Factory did not have a legal entity status and was a contract processing factory (來料加工廠) established on 9 April 1998 according to an agreement between Kiddieland Industrial and 東莞市塘廈鎮鎮鎮聯經貿有限公司 (an Independent Third Party). DG Kiddieland Industrial was established to take over all business and operations of DG Kiddieland Factory by way of “transformation on the same site without cessation of production” (就地不停產轉型). DG Kiddieland Factory will be applying for a deregistration. Please refer to the paragraph headed “DG Kiddieland Industrial” in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OWNERSHIP CONTINUITY AND CONTROL

Notwithstanding the Reorganisation, our Company is able to satisfy the ownership continuity requirement under Rule 8.05(1)(c) of the Listing Rules for the reasons illustrated below:

(i) No addition or departure of shareholders in our group of controlling shareholders

Before the Reorganisation, members of our Group has, since the commencement of the Track Record Period (or since the acquisitions by members of the Lo's Family if later), been directly or indirectly owned or controlled by members of the Lo's Family (consisting of five members, namely, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung, all being immediate family members) despite, for administrative convenience, the shares of certain companies namely Kiddieland UK, Kiddieland US, Innotech and W. Great Worth were held by different members of the Lo's Family in the manner as shown in the breakdown of shareholding as set out in the paragraph headed "The Group's corporate structure" of this section.

Throughout the Track Record Period, the business of our Group was a family business of the Lo's Family and members of the Lo's Family jointly acted as a unit in operating our Group's business and making business decisions. Taking into account the family relationship among each members of the Lo's Family and the past involvement and contribution of each member of the Lo's Family in our Group's business, the Lo's Family together should be regarded as a single group of controlling shareholders. For at least the most recent financial year and up to the Listing Date (the "**Relevant Period**"), in substance, the shareholders constituting the group of controlling shareholders of our Company remains and will remain the same, being the Lo's Family taken as a whole, with KLH Capital incorporated as the common investment holding company of the Lo's Family for holding their interest in our Company after the Reorganisation. Accordingly, there is, and will be, effectively no addition or departure of shareholders during the entire Relevant Period.

(ii) No material changes in the voting interests in our Company held by each shareholder constituting the group of controlling shareholders

Since the date of incorporation and up to immediately prior to completion of the Global Offering and the Capitalisation Issue, our Company only has one shareholder, namely KLH Capital. KLH Capital was incorporated on 30 May 2016 with 1 share issued to Mr. Victor Lo initially for the purpose of setting up the investment holding company of the Lo's Family for holding the Lo's Family's interest in our Company after the Reorganisation. After the Reorganisation on 23 January 2017, KLH Capital became owned as to 25% by Mr. Kenneth Lo, 25% by Ms. Suzanne Lo, 25% by Ms. Sylvia Lo, 12.5% by Mr. Victor Lo and 12.5% by Ms. Esther Leung, which shareholding proportion reflected and mirrored the shareholding proportion in Kiddieland Toys and Kiddieland Industrial (being the two most important operating subsidiaries of our Group) held by each member of the Lo's Family before the Reorganisation.

Kiddieland Toys is responsible for the sales and marketing activities of our Group, while Kiddieland Industrial is responsible for toys development and manufacturing activities of our Group and managing our Group's production facilities in Dongguan, Guangdong Province, the PRC.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Kiddieland UK, Kiddieland US, Innotech and W. Great Worth take a lesser role to our Group's operation and are of much less importance when compared with Kiddieland Toys and Kiddieland Industrial. Kiddieland US was only responsible for import and distribution of our Group's toy products in the U.S.. Kiddieland UK is only a representative office of our Group in England. W. Great Worth and Innotech provided only auxiliary services.

In light of the importance of Kiddieland Toys and Kiddieland Industrial to our Group's operation and the lesser roles of Kiddieland UK, Kiddieland US, Innotech and W. Great Worth, the aforesaid "25%-25%-25%-12.5%-12.5%" shareholding proportion has been the position of shareholding proportion in our Group intended by the Lo's Family during the Relevant Period. Further, since completion of the Reorganisation, the shareholding proportion of the Lo's Family members in KLH Capital remains unchanged, and up to immediately before completion of the Global Offering and the Capitalisation Issue, the shareholding percentage of KLH Capital in our Company will also remain unchanged. Accordingly, there is no material changes in the voting interests in our Company held by each shareholder constituting the group of controlling shareholders during the Relevant Period.

Throughout the Track Record Period, the business of our Group was managed through the joint effort of the members of the Lo's Family with each of them contributing their knowledge, expertise and experience in operating our Group's business and making business decisions. As mentioned above, each subsidiary of our Group has its own role and function in the business operation of our Group. Before the Reorganisation, Kiddieland Toy and Kiddieland Industrial (being the two most important operating subsidiaries of our Group) were held by each member of the Lo's Family, while Kiddieland UK, Kiddieland US, Innotech and W. Great Worth (with ancillary and supportive functions to our Group's business operations and accordingly are of much lesser importance) were only held by certain but not all members of the Lo's Family for administration convenience purpose. Throughout the Relevant Period, the Lo's Family as a single unit had been involved in making important decisions and direction of our Group's business operations and developments. Although not all members of the Lo's Family held shares in some subsidiaries of our Group during the Relevant Period, all members of the Lo's Family had acted jointly as a team and contributed their respective knowledge, expertise and experience to our Group's operation and development.

(iii) The Lo's Family remains a group of controlling shareholders of our Company

Prior to completion of the Reorganisation, the various companies forming our Group were held by various members of the Lo's Family, and pursuant to the Reorganisation, the Lo's Family, through KLH Capital, continued to be interested in the members of our Group. As at the Latest Practicable Date, KLH Capital holds 100% interest in our Company and as disclosed in the group structure chart as set out in the paragraph headed "The Group's Corporate Structure" of this section, it will remain as a controlling shareholder of our Company holding 75% interest in our Company immediately following completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). The Lo's Family and KLH Capital therefore together remain as a group of controlling shareholders of our Company, and there will be no new controlling shareholders during the Relevant Period.

OVERVIEW

We are one of the leading toy manufacturers and exporters principally engaged in the design, development, manufacture and sale of a diverse portfolio of outdoor-and-sports toy products and infant-and-preschool toy products. Our products are mostly co-branded with licensed rights of entertainment properties of popular or up-and-coming characters featured in animated television series or motion pictures granted by major entertainment properties licensors. We also manufacture and sell our products under our **KIDDIELAND** brand as well as under private labels on an ODM basis for our customers. According to the CIC Report, we ranked second in terms of total value of outdoor-and-sports toy products exported in the Guangdong Province, and ranked seventh in terms of total value of outdoor-and-sports toy products exported in the PRC in 2016.

We commenced our business in 1998. Our head office is based in Hong Kong and our production facilities are located in Dongguan, Guangdong Province, the PRC. Since our inception, and during the Track Record Period and up to the Latest Practicable Date, we have been launching new products across our diverse portfolio of outdoor-and-sports as well as infant-and-preschool toy products in order to satisfy market demand and cater for our customers' needs according to market trend and customer feedback. While we focus on the design, development, manufacture and sales of our toy products, we adopt a global licensing strategy to acquire licensed rights from major entertainment properties licensors and most of our products are co-branded with such licensed entertainment properties so as to leverage on the marketing benefits of the internationally renowned entertainment properties to expediently gain consumer awareness, recognition of authenticity and establish credibility and market acceptance from the mass market. Throughout the years of our operations, we have developed relationships with a number of major entertainment properties licensors, and the licensing arrangements which we entered into covered territories on a worldwide basis. In less developed markets, such as Russia, Poland and Ukraine, we focus on our **KIDDIELAND** branded products and to a lesser extent our co-branded products and our customers' private label. As at the Latest Practicable Date, we have been granted licensed rights of entertainment properties and intellectual properties under 11 licensing agreements with licensors such as Disney, Sesame Workshop, VIMN and an automobile manufacturer covering a variety of outdoor-and-sports toy products as well as infant-and-preschool toy products. We possess strong and vertically integrated manufacturing capability which allows us to conduct most of the manufacturing processes in-house.

During the Track Record Period, our sales network has penetrated into over 70 countries across six continents. We principally sell our products to different types of retailers, such as toy specialty chain stores, multinational mass market retailers, local retailers, wholesalers or distributors as well as merchandising and sourcing firms. We have engaged sales representatives servicing our customers located in various countries, including U.S., Japan, Taiwan, Korea, Australia, UAE and countries in Latin America. During the Track Record Period, most of our sales to our customers were on an outright basis, which accounted for approximately 99.0%, 98.9% and 99.8% of our total revenue for FY2015, FY2016 and FY2017, respectively. Under our outright sales, certain of our customers entered into distribution agreements with us, whilst revenue derived from which accounted for approximately 8.0%, 4.4% and 5.3% of our total revenue for FY2015, FY2016 and FY2017, respectively. During the Track

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Record Period, we also engaged in consignment and retail sales in the PRC, revenue generated from which only represented an insignificant portion of revenue to our Group and we have ceased such operations in the PRC as at the Latest Practicable Date.

Our financial performance has deteriorated during the Track Record Period. For FY2015, FY2016 and FY2017, we recorded revenue of HK\$521.0 million, HK\$445.8 million and HK\$367.1 million, respectively, and our net profit was HK\$36.5 million, HK\$34.0 million and HK\$22.6 million, respectively. Notwithstanding the above we believe our business is sustainable. Please refer to the paragraphs below for further details.

Sustainability of the business of our Group

Our Directors do not consider that the decrease in our Group's revenue during the Track Record Period is an indication that our Group's business is not sustainable. Our Directors consider that the "sustainability" of our Group's business cannot be narrowly determined with the sole emphasis on the decrease in our Group's revenue in the Track Record Period in a challenging business environment. The sustainability of our Group's business should be considered in light of a number of factors, including its business and operating history, the industry trend and its resilience in dealing with challenging business environment.

Our Directors believe that the decrease in our Group's revenue during the Track Record Period was primarily due to the fact that: (a) as our Group's toy products are mostly co-branded with licensed entertainment properties, the business of our Group is therefore subject to the business cycle of the global digital animated movies and the marketing campaigns of the entertainment properties licensors; (b) as the sales of our Group is made on a global basis, the business of our Group is therefore subject to the global economic cycle of major target markets as well as the fluctuations of their domestic currency against USD; and (c) there had been isolated impact on our Group's financial results due to the changes in the business strategy of our customers, in particular the change in product display and procurement strategies of two of our Group's major customers in the US in FY2017. Our Group's gross profit margin had remained stable during the Track Record Period, with slight increase in FY2016 due to the decrease in the cost of plastic resin during such period.

Given that the business of our Group is subject to the business cycles of the global animated movie industry, the marketing and promotion activities of the entertainment properties licensors, and the global economic cycle, and any change of business strategy of our customers in the future which may have an isolated impact on our Group's financial results in that relevant year, the decrease in the revenue of our Group is expected to be short lived. In addition, given the business initiatives as set out in the paragraph headed "Our strategies" in this section and our proven operating history and stabilised industry trend as well as the stable and experienced management team, our Directors are of the view that the business of our Group is sustainable.

OUR COMPETITIVE STRENGTHS

We believe that the following principal strengths are crucial to our success and essential for our future growth:

Global licensing strategy and strong standing relationships with major entertainment properties licensors

We adopt a global licensing strategy where we partner with major entertainment properties licensors such as Disney, Sesame Workshop and VIMN and develop our products branded under various licensed entertainment properties for sales and distribution in order to leverage on consumer awareness and marketing benefits of the renowned entertainment properties on a global basis. We are also attentive to our customers' preference and would seek licensing rights of popular entertainment properties from time to time, which enhances our flexibility and timeliness to respond to latest market trends. We endeavour to gauge opportunities to design and develop popular products catering for different age groups by understanding the latest trend of customers' preference by following the latest popular animated television series or motion pictures to identify entertainment properties in the entertainment industry with potential growth. We also evaluate whether to renew the licensed rights of the entertainment properties which we have been granted from licensors from time to time.

We have established relationships with major entertainment properties licensors and we believe such relationships have fortified our market presence in the toy manufacturing industry, in the overseas market, especially in the ride-on category. We have been successful in obtaining licensed rights to use internationally renowned entertainment properties on our products in the past from a number of major entertainment properties licensors.

A timeline illustrating the year of our first cooperation with our major entertainment properties licensors or brand owners is set out below:

Year of first cooperation	Licensor
2002	Disney USA [#] , Disney Europe [#] (for outdoor-and-sports toy products)
2003	Disney Latin America [#] (for outdoor-and-sports toy products)
2004	Disney Greater China [#]
2006	VIMN (Dora the Explorer)
2007	Leapfrog Enterprises (Leapfrog), Dreamworks (Kung Fu Panda)
2009	Marvel Characters B.V.
2010	HIT Entertainment [#]
2012	Chuggington, Victoria Kann (Pinkalicious)
2015	The Walt Disney Company (Japan) Ltd. [#]
2016	Sesame Workshop [#] , VIMN (Paw Patrol) [#]
2017	Disney USA [#] , Disney Europe [#] , Disney Latin America [#] (for infant-and-preschool toy products) An established automobile manufacturer [#] (for outdoor-and-sports toy products)

[#] Being subject to the license agreements which were subsisting as at the Latest Practicable Date.

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As at 30 April 2015, 2016 and 2017, there were seven, nine and ten subsisting licensing agreements entered into between us and our major entertainment properties licensors, respectively and the revenue derived from the sale of products co-branded with licensed entertainment properties accounted for 71.6%, 73.4% and 73.8% of our total revenue, respectively. As at the Latest Practicable Date, there were 11 subsisting licensing agreements entered into between us and our major entertainment properties licensors and an automobile manufacturer.

As a result of our previous track record, we believe we can maintain our business relationships with licensors of popular entertainment properties to sustain our business. We also believe our cooperation with various major entertainment properties licensors and an automobile manufacturer will continue to strengthen our market presence and our market position in the international markets.

Pioneer market position with strong capability in product innovation and design

We have leveraged on our in-depth knowledge of and experience in the production of outdoor-and-sports toy products and infant-and-preschool toy products designed for young infants and toddlers, which we believe cannot be easily replaced by high-tech gadgets due to child developmental needs for motor and sensory skills. To build a strong brand which complements with our highly scalable business model, we undertake the design and development of products in-house, based on our own product development plans incorporating product design concepts obtained from market intelligence and customer feedback. We endeavor to improve customers' satisfaction by adding additional features and functions to our products without significantly increasing our production cost. Our product design and development team comprising product designers, prototype craftsmen, mould makers, mechanical and electrical engineers and graphic designers are dedicated to designing and developing innovative infant products for infants' brain-boosting and skill-building as well as ride-ons. We design all our prototypes and moulds. Our outdoor-and-sports toy products are sturdy-built with a full array of accessories to support child development. See the paragraph headed "Product design and development" of this section for further details. According to the CIC Report, we ranked second in terms of total value of outdoor-and-sports toy products exported from the Guangdong Province, and ranked seventh in terms of total value of outdoor-and-sports toy products exported from the PRC in 2016, respectively. We believe our leading market position stems from our unique product strategies in developing innovative products which are capable of addressing the rapidly evolving toys market.

Extensive and diverse sales network with long established and stable relationship with international major retailers

We have established a diverse and extensive customer base globally through our diversified international sales network. During the Track Record Period, our sales network has penetrated into over 70 countries across six continents. Our customers include toy specialty chain stores, multinational mass market retailers and local retailers. In each of FY2015, FY2016 and FY2017, we had over 240, 230 and 200 outright sales customers, respectively. We believe this broad and multi-level customer base allows us to have a stable and steady line of business and also to diversify our income sources. Further, by placing great emphasis on product quality and appealing design, we had been able to win customer loyalty and maintain business relationships with a number of key reputable international retailers and national toy specialty chain stores for an average of ten years.

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To further expand our sales network, we also participate in toy fairs on a regular basis each year so as to promote our products to customers. During the Track Record Period, we participated in a number of toy fairs in Germany and U.S.. We believe our knowledge in the toy industry in different countries where our customers are located have enabled us to identify suitable distribution channels and have been, and will continue to be, successful in promoting and selling our products.

Strong production capabilities with vertically and horizontally integrated operation

Capitalising on our in-depth experience in the toy industry and acute sense in product design as well as our continuous effort in product innovation, we believe we have been successful in maintaining the appeal of our products to our targeted customers over the years. We believe our success is also built on our vertically and horizontally integrated production model. We manufacture our products in our production plant in Dongguan, Guangdong Province, the PRC, which, together with our warehouse facilities occupy an aggregate of site area of 91,879 sq. m.. As at 30 April 2017, our production plant housed 26 production lines, including 16 assembling lines and 10 production lines for plush and electronics processing, which apportionment between plush and electronics functions can be adjusted according to the production demand, with over 1,000 employees engaging in our production process. See the paragraph headed “Production process and production facilities” of this section for further details.

Our production plant is highly vertically-integrated which enables us to conduct most of the manufacturing processes in-house. Our production capabilities include precision mould design and fabrication, metal parts processing, plastic injection and blow moulding, electronic components assembling, pad printing and spray painting, sewing operation, and label application, etc. We believe our vertically-integrated production capabilities allow us to maintain our production process in an efficient and flexible manner, thus allowing us to possess stable production control to assure our products quality.

In terms of horizontal integration, we adopt a focused product strategy on outdoor-and-sports toy products and infant-and-preschool toy products, with particular focus on ride-on products. Such strategy could minimise the variety of parts and components involve where certain common parts, such as ride-on body, steering wheels, push-back handles, rocking base and wheels, could be utilised in many different designs or models of our outdoor-and-sports toy products which allowed us to take advantage of horizontal integration and achieve economies of scale of production by expanding our production capacity. We believe our continuous effort in production technique innovation, e.g. increased level of modularisation through using common parts in different products and enhanced level of automation, will enable us to manufacture high cost-performance products for our customers. Our portfolio of products, which cater for children of different age groups and developmental needs of children during their growth, creates synergies across different product lines, which contribute to our success as one of the key market players in the industry. According to the CIC Report, physical toys are more suitable for children under the age of three as compared to electronic devices, such as tablets and smartphones, and increasing number of parents are alert of the potential negative impacts on child development that are brought by the use of those electronic devices. Therefore, it is expected that there is a room for further development in the sale of infant-and-preschool toy products which targets at the pre-school and infant market.

Experienced senior management team with comprehensive industry, market and product category knowledge and a proven track record

Our Group's long operating history of over 18 years in the toy industry has enabled us to develop a strong management team with a comprehensive operation and industry knowledge. Our senior management team is characterised principally by their continued commitment to our Group, entrepreneurship and professional execution capability, and extensive experience in toy manufacturing industry. Our Group is led by Mr. Kenneth Lo, our chief executive officer and executive Director and one of the founders of our Group, who has extensive experience in the toy industry. Other members of our senior management team have an average of 25 years of industry experience, and possess extensive experience in the areas of production, sales and business management within the toy manufacturing industry. See the section headed "Directors and senior management" of this prospectus for further details of the credentials of our Directors and members of the senior management. Leveraging on their foresight and in-depth industry knowledge, our management team has been able to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preferences, and capture significant market opportunities. We believe that our senior management team possesses the vision and in-depth industry knowledge required to anticipate and take advantage of market opportunities and to effectively prioritize and execute sound business strategies to maximise shareholder value.

OUR STRATEGIES

We intend to further enhance our leading position in the outdoor-and-sports toy products and infant-and-preschool toy products industry and enlarge our market share internationally. To achieve these goals, we will adopt the following strategies:

Diversify our product offerings through continuous development of new products and global licensing strategy

In order to maintain our leading position and further enhance our competitiveness, we plan to obtain additional licensed rights of entertainment properties and other intellectual properties and diversify our product offerings through new product development.

Increase our product offerings co-branded with popular entertainment properties and other intellectual properties

In order to enhance our market share in the toy industry and capitalise on our diversified customer base and sales network as well as our established relationship with major entertainment properties licensors and licensors of other intellectual properties, we intend to diversify our product offerings and exploit new opportunities through obtaining licensed rights from major entertainment properties licensors for our infant-and-preschool toy products category. Currently, our products co-branded with third party-owned entertainment properties and other intellectual properties are mainly featured in our outdoor-and-sports toy products. We plan to develop more infant-and-preschool toy products co-branded under internationally renowned entertainment properties such as Disney. According to the CIC Report, popular entertainment properties such as characters appearing on television programmes or animated movies are well received by children. We also expect to further consolidate our market position by expanding our collection of products co-branded with evergreen entertainment properties.

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On one hand, we will penetrate into different markets by leveraging on popular entertainment properties and other intellectual properties which we believe is a cost effective way to further develop our business. We will be able to take advantage of our in-depth knowledge in developing infant-and-preschool toy products through our experience in our own **KIDDIELAND** brand and apply such expertise in developing co-branded products in this category. We have been developing infant-and-preschool toy products under our **KIDDIELAND** brand since 1998 and with our rich experience in providing quality toys for our customers in the past, we believe we are capable of developing toys which will be well received in the market. We believe infant-and-preschool toy products category has a broader product offering and many households will choose to buy multiple infant-and-preschool toy products to stimulate the development of infant and toddler's motor and sensory skills. Despite the profit margins of infant-and-preschool toy products during the Track Record Period were relatively lower than those of outdoor-and-sports toy products, we intend to grasp the opportunities to develop this new market by leveraging on the reputation and popularity of our licensed entertainment properties and other intellectual properties, and thereby expanding our Group's market share and solidify our foothold in the market of infant-and-preschool toy products.

We evaluate the market trend on an on-going basis and continue to seek business cooperation and licensing opportunities with internationally-renowned or locally popular entertainment properties and other intellectual properties so that we can manufacture and sell our co-branded products on a global basis or penetrate into a target market more swiftly and efficiently. Despite the licensing arrangements involve the payment of an annual minimum royalty guarantee, we believe we would benefit from the cooperation arrangements with these major entertainment properties licensors and licensors of other intellectual properties on a global basis as we would be able to enjoy the economies of scale in both our product development and production of our products for sale to multiple countries. Our products co-branded with licensed entertainment properties owned by these major entertainment properties licensors usually enjoy a longer product cycle as these licensors regularly create new characters and entertainment properties together with animated movies and television programs. During the Track Record Period, sales of our Group's toy products co-branded with evergreen entertainment properties has accounted for a stable proportion of our Group's overall sales revenue. We strategically select major entertainment properties licensors to cooperate with, and evaluate the duration of the popularity of certain entertainment characters as well as and the geographical coverage. For example, Disney and Pixar characters have long-lasting popularity and cover several major markets such as North America, Europe and Asia. Unlike animated movies which usually have a short-lived effect on the sales of our Group's products, entertainment properties of animated TV series have relatively stable and longer lasting effect since there will be different new TV series launched over time and are shown on TV on regular basis. As such, our Group's global licensing strategy covers entertainment properties of both animated movies as well as animated TV series in order to have a have a more stable product mix.

During the Track Record Period and up to the Latest Practicable Date, we have successfully introduced outdoor-and-sports toy products and infant-and-preschool toy products co-branded under popular entertainment properties such as Disney's Planes, Disney's Frozen, Disney's Sofia the First, Disney-Pixar's The Good Dinosaur, Disney-Pixar's Finding Dory, Sesame Street and Paw Patrol. In addition, with the recent worldwide release of the third series of an automobile-themed digital animated movie, the first series of which was initially released in 2006 and was a blockbuster movie, our Directors are of the view that there will be positive impact on the Group's toy products co-branded with the entertainment properties of such movie.

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During the Track Record Period, our co-branded toy products were mainly focused in the outdoor-and-sports category. As such, we intend to continue to seek business cooperation opportunities with major entertainment properties licensors to reinforce our penetration into infant-and-preschool toy products category. In FY2017, we have entered into additional licensing agreements with a major entertainment properties licensor to produce new products co-branded with their entertainment properties in the infant-and-preschool toy products category for sale in a number of countries, including U.S., Canada, Latin America and a number of European, the Middle East and African markets. Further, we will explore new licensing cooperations with some locally popular entertainment properties of targeted markets in order to tap into new market opportunities. Subsequent to the Track Record Period, our Group has also entered into a licensing agreement with an automobile manufacturer to use its trademarks and trade dress associated with certain of its car models for sales and distribution of our outdoor-and-sports toy products. We expect such cooperation will enable us to leverage on the existing market position and further strengthen its capability for future growth by expanding our product portfolio of co-branded outdoor-and-sports toy products, to not only include entertainment properties of major entertainment properties licensor but also intellectual properties of automobile manufacturers for popular car models, which in turn enable us to diversify our product offering. We believe that the introduction of such new co-branded products would offer our Group various opportunities in expanding into the relevant market and further consolidate our experience and expertise in the production of different toy products. We currently expect that, with the granting of the new licensed rights of entertainment properties, we will incur additional royalty fees for the three years ending 30 April 2020 of approximately HK\$5.2 million, of which approximately HK\$4.1 million will be financed by the net proceeds from the Global Offering and the remainder of HK\$1.1 million will be financed by internal resources.

New product development

We strive to broaden our product offerings by continuously develop different styles of such products. We also seek to further enhance our product development capability in toy products by devoting more resources in the research and development of new products. In addition, we are currently exploring opportunities in expanding our co-branded infant-and-preschool toy products offering such as play gyms, rattles and spinning tops.

Our goal is to translate the results of our market research, product design and development initiatives into successful commercialised products in our target markets. To achieve this, we intend to strengthen our product development capability to cater for different preferences, needs and behavior patterns of end customers of our toy products in the various target markets by way of (a) devoting more resources in market research to enhance product knowledge; (b) enhancing our engineering and quality control functions by employing additional engineers and quality assurance personnel as well as strengthening quality standards and procedures; and (c) deploying further resources in product design and development, including employing product designers and increasing our production and cost efficiency and thus boosting profitability. By hiring experienced personnel such as engineers and designers who possess relevant expertise and experience, we believe that they would be able to contribute critical comment on the competitiveness of our products, so as to further enhance our

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positioning and future development. In particular, we will further explore new opportunities in infant-and-preschool toy products range for different countries as well as continuing to expand the product variety of ride-ons co-branded under entertainment properties and other intellectual properties, which is expected to involve a significant amount of investment, including prototype, moulding and development cost. We also intend to incorporate interactive functions into certain ride-on products through synchronizing the functions of the ride-ons with a smartphones application enabled by bluetooth technology so as to increase the appeal of our ride-on products. The development of such new functions would involve application design, prototype and moulding development costs and we target to present our products with the said new function to our customers commencing from September 2017. We believe continuous development of new products and new product functions will facilitate us to stand out from our fellow competitors.

In order to meet the production needs for our new product offering, our Group is prepared to utilise our current production facility in Dongguan, Guangdong Province, the PRC. For FY2015, FY2016 and FY2017, the utilisation rate of our production facility were 83.6%, 71.5% and 61.1%, respectively. Our Directors believe that, our production facility can handle the increased variety of products in the future. Based on our experience, the time span required for launching a new product varies slightly depending on the type of products and the time required for obtaining approval from the relevant licensors, and it usually takes no more than three months to make a first delivery of the products upon obtaining approval from the relevant licensors on the product design concept. We currently plan to launch over 40 styles of outdoor-and-sport toy products and over 80 styles of infant-and-preschool toy products for the three years ending 30 April 2020. The total estimated costs for the production of moulds and prototypes for the development of such new products for each of the three years ending 30 April 2020 are expected to be approximately HK\$46.6 million, of which, approximately HK\$36.9 million is expected to be financed by net proceeds from the Global Offering and the remainder of HK\$9.7 million will be financed by internal resources.

Intensify our sales and marketing efforts to increase our market awareness so as to enhance our ability to obtain further licensing rights of internationally renowned entertainment properties covering global markets

We intend to increase our sales and marketing efforts to further enhance brand loyalty, reputation and market recognition. With each new license opportunity, we invest heavily in retail advertisement placement, and as a sales strategy, we may opt to place our products in a favorable location in a retail store, e.g. endcap, as well as making promotion contribution to our customers for other in-store promotions and catalogue contributions. With our anticipated broadening of our product offerings, we will inevitably be required to allocate additional resources in sales and marketing efforts.

We intend to extend our outreach in the infant-and-preschool toy products category in the North America, Latin America, and a number of European, the Middle East and African markets, by launching selected existing products as well as developing new products. On marketing, our sales and promotion initiatives include attending international toy fairs in Germany and U.S., where we are able to obtain information about the latest market trend and get in touch with potential customers and/or business partners. We often attend overseas toy fairs which gather counterparts toy manufacturers and suppliers from different countries. We believe that we can gain market intelligence by attending toy fairs which will provide us with the latest trends and market demands. We intend to continue to attend these activities so as to assist us on our development on product variety. We also expect to attend licensing

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shows in Las Vegas, Nevada, U.S. where various entertainment properties licensors would gather at the occasion, and thus we would be able to gather more information about the latest trend in the entertainment properties. We also intend to optimise marketing efforts by participating in our customers' promotional campaign by sponsoring their marketing events such as printing of catalogues, pamphlets and flyers, production of marketing video on digital media, in-store decoration and setting up of promotional visual display.

These marketing activities will allow us to develop our business opportunities and at the same time strengthen our relationships with existing and potential customers and licensors. We currently expect that the total expenses for the aforesaid marketing and promotional activities for the three years ending 30 April 2020 would be approximately HK\$27.2 million, of which, HK\$21.5 million is intended to be financed by net proceeds from the Global Offering and the remainder of HK\$5.7 million is intended to be financed by internal resources.

Enhancement of production efficiency to achieve cost efficiency by replacing and upgrading existing injection moulding machines and addition of new machinery

In addition to increasing our product offerings, we also strive to improve our profitability by minimising our production cost in order to uphold and improve our competitiveness in the industry. Over the years, we have been devoting our product development resources in reengineering the design of our outdoor-and-sports toy products to simplify and streamline our production flow by improving the structural and mechanical designs of our products in order to achieve higher production efficiency as well as to mitigate the increasing labour cost in the PRC. We intend to simplify our production process and enhance modularisation of components for common use by a wider range of products which offer us higher flexibility in accommodating different production schedules as requested by our customers from time to time. As at the Latest Practicable Date, we have 174 injection moulding machines, of which 75 of them have been used since our inception. We intend to replace 20 injection moulding machines and carry out renewal work on another 80 machines. Furthermore, we intend to set up a new fabrication line for processing of electronics parts within the two years ending 30 April 2019 in order to further integrate our production process vertically. We plan to acquire different machines for the new fabrication line, such as loader, SMT printer, buffer conveyor, chip shooter, unloader, bonder and dispensing machine as well as certain automation machinery such as automated robotic arms to improve our production efficiency. Replacement of aged machineries would reduce electricity costs, minimise the downtime and defective rate, which in turn shortens the production lead time and reduces our maintenance costs as certain electronic components can be used for more than once, leading to an overall enhancement of the efficiency and stability of our production. We believe the acquisition of new machineries and upgrading existing injection moulding machines will enhance our productivity and hence our production capacity. We plan to finance the above acquisition and upgrading of machineries through the net proceeds of the Global Offering. The total estimated cost for the acquisition of new machineries and upgrading of the existing injection moulding machines for the three years ending 30 April 2020 amounts to HK\$9.5 million, of which approximately HK\$7.5 million will be financed by net proceeds from the Global Offering and the remainder of HK\$2.0 million will be financed by internal resources.

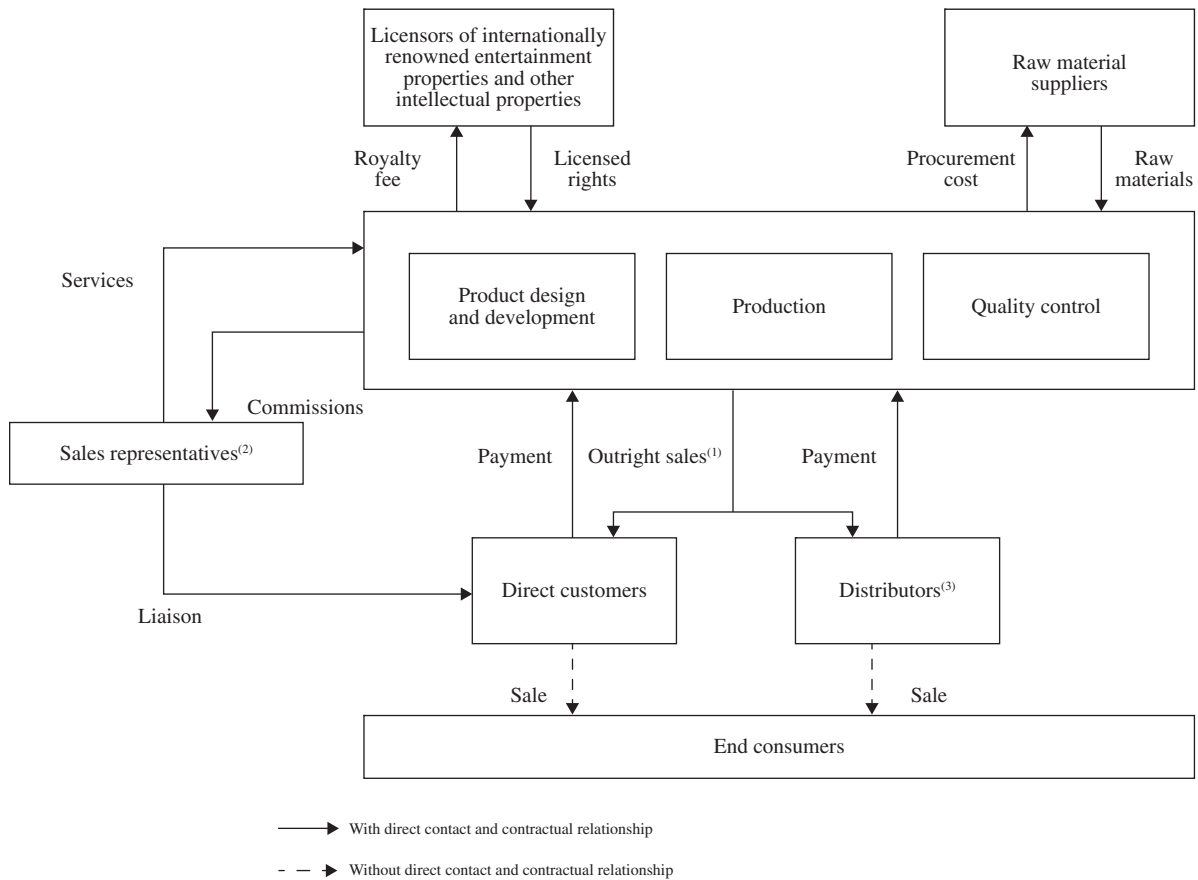
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Upgrading of and up-keeping our production facilities

To cater for the future expansion and maintaining our product quality as well as ensuring our compliance with the assessment criteria of certain major customers who would perform regular assessment on our factory and production tools and machinery, covering aspects like environment and condition of our factory, we intend to upgrade our production facilities, including replacement and renovation of certain parts of the factory building, repair and improvement works on the water drainage system, addition of new forklifts and electric pallet stackers, and other upgrade and maintenance work of our factory and production tools and machinery. We currently expect that the capital expenditure of the above to be incurred during the three years ending 30 April 2020 would be approximately HK\$11.5 million, of which approximately HK\$9.1 million will be financed by net proceeds for the Global Offering and remainder of HK\$2.4 million will be financed by internal resources.

OUR BUSINESS MODEL

We are principally engaged in the design, development, manufacture and sale of outdoor-and-sports toy products and infant-and-preschool toy products. Our products which are co-branded with internationally renowned entertainment properties and other intellectual properties or our **KIDDIELAND** brand as well as under private label of our customers that we have developed are sold to over 70 countries. We adopt different branding and sales strategy depending on the product categories and markets. The following diagram illustrates our business model:



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Notes:

- (1) During the Track Record Period, we also conducted consignment sales and retail sales in the PRC and the revenue derived from which only accounted for an insignificant amount of our total revenue. We ceased such operations in the PRC as at the Latest Practicable Date.
- (2) During the Track Record Period, we have engaged a number of sales representatives to assist in the liaison with our customers in certain overseas markets, such as U.S., Japan, Taiwan, Korea, Australia, UAE and countries in Latin America, etc. See “Business — Sales and marketing — Our sales representatives” for further details.
- (3) As at the Latest Practicable Date, we entered into distributorship arrangements with three distributors. See “Business — Sales and marketing — Distributorship arrangement” for further details.

OUR PRODUCTS

Our products are broadly categorised into (i) outdoor-and-sports toy products; and (ii) infant-and-preschool toy products; of which, we particularly focus on ride-on products. The table below summarises the breakdown of our revenue by product type during the Track Record Period:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue <i>HK\$'000</i>	Percentage of total %	Revenue <i>HK\$'000</i>	Percentage of total %	Revenue <i>HK\$'000</i>	Percentage of total %
Outdoor-and-sports toy products	403,714	77.5	349,220	78.3	287,393	78.3
Infant-and-preschool toy products	117,252	22.5	96,536	21.7	79,753	21.7
	520,966	100.0	445,756	100.0	367,146	100.0

Outdoor-and-sports toy products

Our outdoor-and-sports toy products mainly comprise primarily ride-ons, rockers, trikes, scooters and walkers, which are designed for children aged six months to five years old. According to the CIC Report, we ranked second in terms of the total value of outdoor-and-sports toy products exported in the Guangdong Province, and ranked seventh in terms of the total value of outdoor-and-sports toy products exported in the PRC and our market share by total export value was 7.6% and 1.8%, respectively, in 2016.

During the Track Record Period, most of our toys under this category are co-branded with licensed entertainment properties and our **KIDDIELAND** brand. The unit price of our outdoor-and-sport toy products sold to our customers ranged from US\$8.8 to US\$55.0 during the Track Record Period.

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Pictures below showing some of our outdoor-and-sports toy products:



*Disney
Princess Ride-on*



*Disney-Pixar's
Cars Ride-on*



Paw Patrol Ride-on



Mickey Roadster Ride-on



Minnie Mouse Trike



Disney Princess Rocker



Disney Frozen Scooter



Elmo Plane Ride-on

Infant-and-preschool toy products

Our infant-and-preschool toy products mainly include interactive playsets, activity toys, musical toys and action vehicles which are designed for children aged six months to three years, and some of these toys which play music and contains play features are intended to spark the sensory development of children. During the Track Record Period, most of these toys are sold under our **KIDDIELAND** brand, and we also manufacture under our customers' private labels. For further details of our plans to expand in the infant-and-preschool toy products, see paragraph headed "Our strategies — Diversify our product offerings through continuous development of new products and global licensing strategy".

The unit price of our infant-and-preschool toy products sold to our customers ranged from US\$1.1 to US\$26.5 during the Track Record Period.

Pictures below illustrate some of our infant-and-preschool toy products:



6-in-1 singing band, a preschool toy, which plays music in five different musical instruments, including piano, saxophone, tambourine, violin, and flute.



Noah's Activity Ark — with piano keys to play music and other switches to activate rewarding fun sounds, ark includes removable jungle and farm animals for creative fun.



Farm Tractor with Trailer — a motorized tractor moves forward and auto-stops with realistic engine sounds, and includes a number of removable farm animals.

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Product life cycle and seasonality

Our infant-and-preschool toy products, which are mainly for stimulating motor and sensory development of infants and toddlers, and our ride-on products, do not require advanced technology, and generally have long product life-cycle of over ten years. A significant portion of our products are co-branded products featuring components or elements of prominent cartoon characters and the life cycle of these products varies with the popularity of the licensed animation series or cartoon characters and the nature of products. Whilst some of our co-branded products may have a relatively short life cycle of one to two years due to fading out of the popular cartoon characters, our co-branded products under evergreen licensed entertainment properties may have a longer life cycle of over ten years.

We also market our products under our **KIDDIELAND** brand and amongst which, certain generic toys such as infant-and-preschool toy products for enhancing the motor and sensory development of infants and toddlers, simple toy set and role play toys such as kitchen set, vanity table, trains and trucks, have a relatively longer life cycle. Some of our infant-and-preschool toy products under our **KIDDIELAND** brand have a life cycle of up to ten years.

In general, we experience higher sales from July to October, which is our peak season for shipment to meet the Christmas and New Year holiday season.

OUR PRODUCT BRANDS AND LICENSING ARRANGEMENT

Majority of our products are co-branded under internationally renowned entertainment properties with our **KIDDIELAND** brand. Our co-branding arrangement is intended to enhance our brand awareness. We also manufacture and sell products under our **KIDDIELAND** brand or manufacture products under private labels of our customers on ODM basis.

The tables below summarise the breakdown of our revenue and gross profit attributable to products under different brands:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue <i>HK\$'000</i>	Percentage of total %	Revenue <i>HK\$'000</i>	Percentage of total %	Revenue <i>HK\$'000</i>	Percentage of total %
Co-brand	372,925	71.6	327,108	73.4	270,855	73.8
Kiddieland brand	68,266	13.1	47,229	10.6	44,452	12.1
Private label	79,775	15.3	71,419	16.0	51,839	14.1
Total	520,966	100.0	445,756	100.0	367,146	100.0

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	For the year ended 30 April					
	2015		2016		2017	
	Gross profit		Gross profit		Gross profit	
	Gross profit	margin	Gross profit	margin	Gross profit	margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Co-brand	95,621	25.6	102,692	31.4	76,281	28.2
Kiddieland brand	15,716	23.0	12,044	25.5	10,820	24.3
Private label	14,867	18.6	16,280	22.8	13,363	25.8
Total	126,204	24.2	131,016	29.4	100,464	27.4

Licensed entertainment properties and intellectual properties

During the Track Record Period, a majority of our revenue was generated from the sale of toy products co-branded with entertainment properties licensed by major entertainment properties licensors. The targeted territory, product categories and distribution channels of these co-branded products were sold in accordance with the respective licensing agreements. For the markets that we are interested to develop through obtaining third parties licenses, we carry out market research to understand the latest market development, anticipate market trends, as well as to grasp consumer's preference through gathering customer's feedback, conducting site visit at our customers' retail stores and obtaining information from the licensors such as their newsletters updating the latest entertainment characters and toy fairs showing their core toys. As at the Latest Practicable Date, we have obtained rights to develop and sell different co-branded products under different licensing arrangements on a global basis. Our co-branded products are typically sold to toy-specialty chain stores, multinational mass market retailers and local retailers. Our focus on manufacturing co-branded products is rested on a relatively higher gross profit margin from the sale of such products as compared to our own brand and private label products.

We entered into licensing agreements with various major entertainment properties licensors and an automobile manufacturer, covering different jurisdiction, product category and distribution channels and have maintained regular communications with them in order to foster our relationship with them. In addition, according to the CIC Report, with the advancement in infrastructure of telecommunication, more intellectual property content related products, such as movies and animations, are launched in the market, this provide a large pool of available entertainment properties which in turn reduces our exposure to risks associated with reliance on a particular licensor. Our Group has been exploring potential opportunities to cooperate with licensors through attendance at toy fairs and promotion of our brands through different distribution channels. A majority of our Group's outdoor-and-sports toy products are co-branded with popular or up-and-coming licensed entertainment properties of animated movies, and the success of such products is to a certain extent dependant on the market acceptance of the entertainment properties which is in turn affected by the market acceptance and popularity of the movie, the marketability of the merchandising items with licensed entertainment properties, and marketing and promotion activities initiated by the licensors. Our Group's business is therefore subject to the business cycle of the global animated movie industry and the promotional campaigns undertaken by the licensed entertainment properties licensors. The lasting effect of the animated movies on the sales of the products of the Group depends on the popularity of the movie as well as the compatibility of the movie characters to our product categories. In general, our Group's sales of products with licensed

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entertainment products would benefit from the release of the relevant digital animated movies, and the sales of the Group will be significantly boosted if such movie is a blockbuster, but with diminishing effect following the lapse of time following the date of first release. See “Risk factors — Our success during the Track Record Period relied on the popularity and market acceptance of entertainment properties used in our co-branded products, which depends largely on the marketing and promotional activities of the licensors” and “Risk factors — Any failure to renew licensing arrangements with our licensors may affect our business” for the relevant risks involved. Disney characters are amongst the most popular entertainment properties for our ride-ons. We have established business relationship with Disney since the year 2002 and have obtained licences to manufacture and sell products for many Disney and Pixar characters over the years.

Our ride-ons co-branded with major licensed entertainment properties, including Mickey Mouse, Minnie Mouse, Disney·Pixar’s Cars, Disney Princess, Disney·Pixar’s Finding Dory, Thomas & Friends, Sesame Street and Paw Patrol, are well received by our global customers. We select licensed rights of entertainment properties which are known for popularity and age appropriateness. We leverage on the promotional and advertising activities carried out by the licensors in the promotional campaign of the entertainment properties.

We believe that with our brand management expertise, established sourcing network coupled with our requirement to conduct regular review of the sales performance of our products co-branded under different entertainment and intellectual properties, adjustment of our mix of licensed intellectual properties as well as product mix in response to market conditions, we believe that the present brand management policy enables us to maintain flexibility in managing our diversified brand and product portfolio, which in turn consolidates our strength and comprehensiveness of our business.

Licensing arrangements with licensors

Our licensed entertainment and intellectual properties as at the Latest Practicable Date cover territories on a worldwide basis. We enter into licensing agreements with various licensors which allow us to design, manufacture and sell toy products for a range of popular cartoon and animated characters such as Disney and Pixar characters, other characters such as Thomas & Friends, Sesame Street and Paw Patrol as well as certain models of automobile for sale and distribution within the designated territories. Under the licensing arrangements, the design of our products is subject to approval by our licensors; some of the licensing agreements provide that intellectual property rights concerning the final products (other than the character licensed to us) that we produce belong to us, while royalty fees is charged by our licensors with a guaranteed minimum amount. For FY2015, FY2016 and FY2017, we incurred minimum royalty fee of HK\$21.0 million, HK\$22.4 million and HK\$23.2 million, respectively.

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We entered into licensing agreements with a number of major entertainment properties licensors and an automobile manufacturer to acquire the right to use their intellectual properties on the various series of our products. Set out below are the major terms of such licensing agreements which were subsisting as at the Latest Practicable Date:

	Licensing Agreement A	Licensing Agreement B	Licensing Agreement C	Licensing Agreement D	Licensing Agreement E
Duration of the licences granted	Two years, expiring on 31 December 2017	Two years, expiring on 31 March 2019	One year, expiring on 31 March 2018	Three years, expiring on 31 December 2017	Two years, expiring on 31 March 2019
Licensed intellectual properties	Use of trademark, copyrights and logos and depiction of selected characters of underlying movies and television series	Various types of outdoor-and-sports toy products and depiction of selected characters of underlying movies and television series	Various types of outdoor-and-sports toy products	Ride-ons	Ride-ons and others
Product categories	Various types of outdoor-and-sports toy products	Various types of outdoor-and-sports toy products and infant-and-preschool toy products	Various types of outdoor-and-sports toy products		
Geographical coverage	Canada, U.S. and the territories possessed by U.S.	Countries in Central and Latin America such as Chile, Columbia etc.	Hong Kong, Taiwan, Macau, Australia and New Zealand	Australia and New Zealand (expiring on 31 December 2017); Canada, U.S. and the territories possessed by U.S. (expired on 31 December 2016)	Japan
Consideration (royalty rates and its determination basis)	Agreed percentage range on gross invoiced billings plus additional royalty rates for FOB sales through wholesalers A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on gross invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage on gross invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on sales A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage ranges of the sales to retailers or of the suggested retail price for sales to wholesalers A guarantee minimum royalty fee is payable during the terms of the agreement
Payment term	Quarterly	Quarterly	Quarterly	Quarterly	Monthly
Rights and obligations of the parties	<ul style="list-style-type: none"> Our Group is required to follow the style guide provided by the licensors when using the licensed entertainment properties on products 				
Designated distribution channels	<ul style="list-style-type: none"> The licensors have rights to examine and audit the records of transactions in relation to the Licensing Agreements 				
Promotion commitment	Yes Required to pay a fixed amount to the licensor for marketing the licensed entertainment properties and/or licensed products in the region	Yes Required to pay a fixed amount to the licensor for marketing the licensed entertainment properties and/or licensed products in the region	Yes Committed to incur promotion expenses equivalent to a certain percentage of sales in Hong Kong, Macau and Taiwan Required to pay a fixed amount to the licensor for marketing the licensed entertainment properties and/or licensed products in Australia and New Zealand	Yes Committed to incur a certain percentage of sales to promote, advertise and market the licensed products	No Committed to incur a fixed amount as promotion expenses
Conditions and notice period of termination	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15-30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15-30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15-30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15 days from the date of written notice
Renewal of agreement	No specific provision for renewal				

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Licensing Agreement F Licensing Agreement G Licensing Agreement H Licensing Agreement I Licensing Agreement J Licensing Agreement K

Duration of the licences granted	Three years, expiring on 31 December 2018	Two years and six months, expiring on 30 June 2018	Two years, expiring on 31 December 2018	Three years, expiring on 31 December 2019	Two years, expiring on 31 December 2018	One year and five months, expiring on 31 December 2019
Licensed entertainment properties/licensed properties	Use of trademark, copyrights and logos and depiction of selected characters of underlying movies and television series					
Product categories	Various types of outdoor-and-sports toy products	Various types of outdoor-and-sports toy products	Various types of infant-and-preschool toy products	Various types of outdoor-and-sports toy products	Various types of infant-and-preschool toy products	Various types of outdoor-and-sports toy products
Geographical coverage	U.S. and the territories possessed by U.S.	Worldwide excluding U.S. and the territories possessed by U.S., Australia, New Zealand, Canada and Puerto Rico	Canada, U.S. and the territories possessed by U.S.	Countries in Europe, Africa and Asia	Countries in Europe, Africa and Asia	Worldwide excluding certain countries
Consideration (royalty rates and its determination basis)	Agreed percentage range on net invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentages on sales or for FOB sales A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on gross invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on net invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on net invoiced billings A guarantee minimum royalty fee is payable during the terms of the agreement	Agreed percentage range on net sales A guarantee minimum royalty fee is payable during the term of the agreement
Payment term	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Rights and obligations of the parties	<ul style="list-style-type: none"> Our Group is required to follow the style guide provided by the licensors when using the licensed entertainment properties on products The licensors have rights to examine and audit the records of transactions in relation to the Licensing Agreements 					
Designated distribution channels	Yes	Yes	Yes	Yes	Yes	Yes
Promotion commitment	Committed to incur promotion expenses comparable to industry peers	Nil	Required to pay a fixed amount to the licensor for marketing the licensed entertainment properties and/or licensed products in the region	Committed to incur a certain percentage of sales to promote, advertise and market the licensed products	Committed to incur a certain percentage of sales to promote, advertise and market the licensed products	Nil
Conditions and notice period of termination	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 10-30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15-30 days from the date of written notice	Can be terminated immediately in case of material breaches, otherwise can only be terminated if breaches have not been rectified within 15-30 days from the date of written notice	Can be terminated by 20 day-notice in case of material breaches, otherwise can be terminated immediately if more than two termination notices have been issued to the Group in respect of the breaches
Renewal of agreement	No specific provision for renewal					

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Although the licensing arrangement of our co-branded products involves payment obligation of a minimum royalty fee to the licensors, with our highly scalable production lines and global sales distribution network, we believe that the revenue brought by the sales of our co-branded products on a large scale often outweighs the royalty payments and/or the cost of building the brand of our own.

Our **KIDDIELAND** brand

We have developed our **KIDDIELAND** brand since 1998, which we believe has gained its reputation for its high quality and creative design of the products over the years. We have established the foothold of our **KIDDIELAND** brand by penetrating into different countries. In the developed markets such as U.K., France and Spain, our **KIDDIELAND** branded products are sold in various retail chain such as multinational mass market retailers, toy specialty chain stores, local retailers, etc. In less developed markets such as Russia and Ukraine, we adopt the strategy of engaging distributors to distribute our products in their local markets whereby we could leverage on the established distribution networks of our distributors, to enhance our brand and penetrate into the relevant market in a more expedient and cost-effective manner. We adopt a strategic approach in selecting our products to be sold in the target markets so as to shorten our brand building process. For details of our sales arrangements, please refer to the paragraph headed “Sales and marketing — Outright sales” of this section.

Private label products

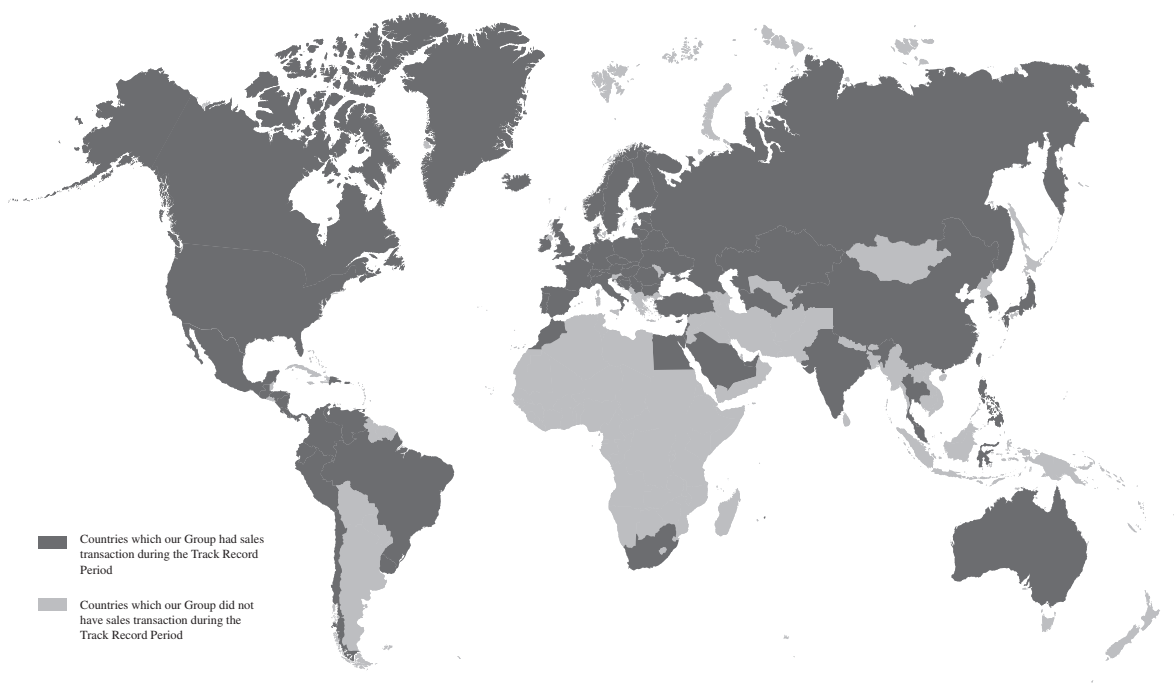
Private label products are produced and sold to our customers on ODM basis and branded under our customers’ brands. These customers usually select products which fit in their brand philosophy. We would present to our customers the design and prototype of the products to be developed, with whom we would further discuss on the design, special features and adaptations which the customers may desire. If the design is accepted by the customers, arrangements will be made to commence manufacturing of such products. Our customers would have the final decision on product specifications, such as colours, or packaging, and upon agreement on the details of the manufacturing arrangement, we would enter into agreements with our customers. Private label products allow us to leverage our knowledge of consumer trends to manufacture products that are responsive to customer preferences in the various markets in which they operate.

SALES AND MARKETING

We have developed a global sales network. During the Track Record Period, we sold our products to over 70 countries across six continents.

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The map below illustrates the regions where we delivered our products during the Track Record Period:



The following table sets out our revenue breakdown by geographical regions during the Track Record Period:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	<i>HK\$'000</i>	of total	<i>HK\$'000</i>	of total	<i>HK\$'000</i>	of total
		%		%		%
North America ⁽¹⁾	249,186	47.8	223,905	50.2	165,074	45.0
Europe ⁽²⁾	197,559	37.9	161,594	36.3	158,960	43.3
Asia	56,114	10.8	45,732	10.3	28,627	7.8
South America	10,884	2.1	6,975	1.5	6,957	1.9
Oceania	3,688	0.7	5,799	1.3	6,585	1.8
Africa	3,535	0.7	1,751	0.4	943	0.2
Total	520,966	100.0	445,756	100.0	367,146	100.0

Notes:

1. Sales to U.S. accounted for 40.9%, 44.1% and 40.1% of our total revenue for the FY2015, FY2016 and FY2017, respectively.
2. Sales to U.K. accounted for 8.1%, 8.8% and 9.1% of our total revenue for the FY2015, FY2016 and FY2017, respectively.

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Our sales were mainly made on an outright sales basis, which contributed 99.0%, 98.9% and 99.8% of our total revenue for FY2015, FY2016 and FY2017, respectively. We also engaged in consignment sales and retail sales in the PRC, which contributed an insignificant portion of revenue to our Group and we have ceased such operation in the PRC as at the Latest Practicable Date. With our extensive sales network, we believe that we can maximise our brand exposure and sales opportunities, capture a wider range of customers from different markets. Furthermore, to better serve our customers in the overseas markets, we also engaged sales representatives to assist us in maintaining a close communication with customers of targeted markets and solicit sales during the Track Record Period. See the paragraph headed “Our sales representatives” in this section for more details.

Outright sales

During the Track Record Period, over 98% of our revenue was derived from outright sales of our products to customers of relevant local markets, who then resell our products in their region, and amongst them, a number of our customers have entered into distribution agreements with us. For most of the developed markets, we usually adopt direct sales whereby customers place direct purchase orders with us. Our customers are not entitled to return unsold goods to us except for malfunction or manufacturing defect in our products, and in such case, return will be considered on a case by case basis. See the paragraph headed “Product return policy” under this section for further details. For each of FY2015, FY2016 and FY2017, we had over 240, 230 and 200 outright sales customers, respectively.

We generally do not enter into any long term contracts with our customers under outright sales. We may also provide a defective allowance for some of our key customers of a certain percentage of the total sales amount depending on negotiation with customers, under which, our customers are entitled to obtain refund for amount of goods which are claimed to be defective. In line with market practice, we confirm the details of every purchase with our customers by way of purchase order and sales confirmation, which typically contain product type, purchase quantity, unit prices, payment method, credit term, delivery terms which may be FOB or POE, quality assurance and other terms and conditions which may be agreed from time to time.

Distributorship arrangement

For markets that we are newly developing and where toy retailing market are considered to be more fragmented without dominating retailers, we may adopt distributorship sales strategy which we believe could allow us to save costs in negotiating with and managing local retailers and we are able to expand our sales network more quickly and effectively by leveraging on the local market knowledge, established network and sales channels of our distributors. Under our distributorship arrangement, we sell our products on an outright basis to third-party distributors.

We promote our products to distributors and evaluate their experience and qualifications before they become our distributors. Factors which we consider include their market reputation, credit worthiness, strength of sales network, customer base and their existing product portfolio. Where possible, we also make enquiries with our existing customers in neighbouring countries to understand the market reputation of the potential distributor. After assessment by our sales department, the details of the potential distributor would be approved by our management, and we would proceed to negotiating the terms of the distribution agreement with the distributor. Our relationship with the distributors is

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governed by the respective distributorship agreements entered into between us and the distributor. Though we do not have direct control over them, we communicate with and provide support to our distributors if necessary. We provide assistance when our distributors have requests and enquiries, such as distributors' request to make changes to our products which require engineering work such as development of new sound chip.

Management of distributors

Our sales personnel periodically conduct assessments of performance of each of our third-party distributors, quality of service and whether the terms of our distribution agreements have been complied with. We reserve the right to terminate our distribution agreements if there are any material breaches by the third-party distributors, such as not fulfilling the minimum purchase obligation. During the Track Record Period and up to the Latest Practicable Date, there was no early termination of the distribution agreements as a result of the breach of the relevant terms in the distribution agreements.

As at 30 April 2015, 2016, 2017 and the Latest Practicable Date, we have appointed four, three, three and three distributors, respectively, for our target markets in Russia, Ukraine, Poland and Nordic Countries, including Denmark, Norway, Sweden and Finland. Our revenue derived from sales to distributors amounted to HK\$41.8 million, HK\$19.7 million and HK\$19.4 million, representing 8.0%, 4.4% and 5.3% of our total revenue for each of FY2015, FY2016 and FY2017, respectively. The substantial decrease in revenue from distribution arrangement was mainly due to the economic downturn in Russia resulting in the decrease in sales to our distributors in Russia.

Distribution agreements

We enter into distribution agreements with our distributors with terms and conditions in line with our sales policy for our products. We manage our distributors by way of distribution agreements, which govern our relationships with our respective distributors.

Set out below are the typical salient terms of such distributorship agreements which are subsisting as at the Latest Practicable Date:

Duration:	One to four years.
Geographic or other exclusivity:	Our Group granted the distributors exclusive rights to distribute our products (or certain types of products as specified in the agreement) for territory assigned.
Goods return arrangements:	Except for defective goods which can be returned to us within a specified period, goods return are not allowed in other cases.

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Minimum purchase amounts: Our distributors are generally required to attain a minimum purchase amount, either in terms of quantity or monetary value of our products. In case of non-fulfilment of such commitment, our Group has the right to seek compensation from our distributors in an amount equal to a specified percentage amount of shortfall.

There would not be any sales rebates or bonuses even if the target is met.

Payment terms: The distributors can pay by telegraphic transfer, and the credit period is generally 0–90 days.

During the Track Record Period, our distributors had not been able to meet the minimum purchase amount. We have not imposed the compensation obligation on the part of the distributors having considered our business relationship with these distributors and the potential for future development; and the economic condition of the relevant market.

Where it was not specified in the distribution agreements, details of the payment and credit terms and logistics, such as transportation and insurance, would be negotiated and agreed in the purchase order and sales confirmation for each transaction.

Our sales representatives

As at 30 April 2015, 2016 and 2017, we engaged the services of 12, 11 and 11 sales representatives to assist in soliciting sales and maintain client relationship with a number of customers in the U.S., Japan, Australia, Taiwan, Korea, UAE and countries in Latin America. Our sales representatives extend the reach of our sales and marketing team by liaising with our existing and potential customers located outside Hong Kong. The service agreements with our sales representatives could be terminated by serving one month prior notice by either party. Under the service agreements, our sales representatives are typically required to provide services in relation to promotion of the products of our Group, liaison with customers in relation to the delivery and logistic arrangements of our products. Our Directors consider that these sales representatives provide a cost-effective means for our Group to communicate with our overseas customers. Sales commissions incurred for the services of our sales representatives amounted to HK\$5.8 million, HK\$6.4 million and HK\$3.1 million respectively for each of FY2015, FY2016 and FY2017. Our sales representatives mainly act as local liaison and provide account servicing to our customers, whilst our Group would enter into sales contracts with our customers directly.

Pricing policies

We set the selling price for our products by reference to a number of factors, including, market demand, retail price of similar products in the market, cost of raw materials, labour costs, product brands, product life cycle, consumption behaviour as well as business relationship with our customers. Depending on negotiation with customers and where appropriate, we make adjustment to our standard price lists to accommodate different types of customers. We offer bulk purchase discount or more competitive prices to customers, such as mass market retailers that are larger in scales and have larger sales network, who purchased in large amount, as we will benefit from economies of scale and can save

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administrative and transaction costs. To ensure observance with our pricing policies whilst maintaining flexibility in response to changing market conditions, our senior sales managers are authorised to offer our customers a permissible range of discount to our pre-determined selling price, on a case by case basis. For a discount which is beyond the permissible range, our sales team would seek authorisation from the senior management.

To foster customers' loyalty and retain reputable and quality customers, we may pay different types of sales rebates such as volume rebate to our customers, other than distributors, which will be net off against our revenue.

To maintain our price competitiveness, we review our price lists from time to time, with reference to market price, seasonality and popularity of our brands and products.

Payment

Depending on our negotiation of the terms of contracts and the background of customers, our customers may pay us by letter of credit, and full payment before shipment or placing a certain amount of deposit before commencement of production.

Marketing

We have implemented various advertising and promotional activities to strengthen our brand portfolio and expand our market share, including participating in trade fairs and our customers promotional campaign by sponsoring their marketing events such as printing of catalogues, pamphlets and flyers, production of marketing video on digital media, in-store decoration and setting up of promotional visual display. Our website (www.kiddieland.com.hk) also serves as a promotional platform for our products, and conveys latest information about our products, enabling our customers to have a better understanding of our product profiles.

We also build customer relationships and extend our reach to potential buyers by attending domestic and international trade fairs and exhibitions. During the Track Record Period, we participated in toy fairs in Germany and U.S..

For FY2015, FY2016 and FY2017, our advertising and promotional expenses amounted to HK\$7.3 million, HK\$4.1 million and HK\$5.0 million, respectively, representing 1.4%, 0.9% and 1.4% of our total revenue for the same period.

OUR CUSTOMERS

Our customers make purchases from us mainly on an outright basis. These customers include (i) multinational and national retailers operating mass market retail chain stores; (ii) multinational and national toy products retailers operating specialty toy store chain; (iii) local retailers and internet store operators; (iv) toy distributors or wholesalers of relevant local markets; and (v) merchandising and sourcing firms. During the Track Record Period, we also engaged in consignment sales and retail sales to end customers in PRC which represented an insignificant portion of our total revenue and we have ceased such operations in the PRC as at the Latest Practicable Date.

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The following table sets forth our revenue breakdown by customer type for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	<i>HK\$'000</i>	of total %	<i>HK\$'000</i>	of total %	<i>HK\$'000</i>	of total %
Wholesalers and retailers	474,090	91.0	421,246	94.5	347,072	94.5
Distributors	41,788	8.0	19,741	4.4	19,378	5.3
End customers	5,088	1.0	4,769	1.1	696	0.2
	520,966	100.0	445,756	100.0	367,146	100.0

For each of the FY2015, FY2016 and FY2017, revenue generated from our top five customers in aggregate accounted for 36.1%, 39.3% and 38.4% of our total revenue of the corresponding year, respectively and revenue generated from our largest customer accounted for 16.9%, 19.8% and 17.5% of our total revenue of the corresponding periods, respectively.

Our top five customers during the Track Record Period were Independent Third Parties. To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors or their close associates or any shareholder who owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, had any interest in any of our top five customers of our Group during the Track Record Period. The following table sets out the profile of our top five customers during the Track Record Period:

Name of customers	Period in which the customer was one of our Group's top five customers and its approximate percentage of total revenue and ranking in the corresponding period	Commencement of business relationship with us	Customer profile
Customer A	FY2015: 16.9% (Rank: 1) FY2016: 19.8% (Rank: 1) FY2017: 17.5% (Rank: 1)	Since 2002	A multinational mass market retailer and operator of hypermarkets and discount stores based in the U.S., with over 4,500 points of sales in the U.S.. The shares of its parent company are listed on the New York Stock Exchange
Customer B	FY2015: 4.3% (Rank: 3) FY2016: 5.7% (Rank: 3) FY2017: 6.2% (Rank: 2)	Since 2002	A multinational toy-specialty and juvenile-product retailer headquartered in the U.S. with more than 1,500 points of sales across more than 35 countries.

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Name of customers	Period in which the customer was one of our Group's top five customers and its approximate percentage of total revenue and ranking in the corresponding period	Commencement of business relationship with us	Customer profile
Customer C	FY2015: 7.3% (Rank: 2) FY2016: 6.4% (Rank: 2) FY2017: 4.5% (Rank: 4)	Since 2004	A national mass market retailer and operator of about 1,800 hypermarkets and discount stores in the U.S.. Its shares are listed on the New York Stock Exchange
Customer D	FY2015: 4.0% (Rank: 4)	Since 2002	An importer and distributor of toy products including toys, games and children goods based in Russia
Customer E	FY2015: 3.6% (Rank: 5) FY2016: 4.7% (Rank: 4) FY2017: 6.0% (Rank: 3)	Since 2003	A national retail chain operator of toys and entertainment products based in Ireland with retail chain network of over 80 points of sales covering Ireland and the U.K.
Customer F	FY2016: 2.7% (Rank: 5)	Since 2007	A national retailer which operates over 650 membership-only warehouse clubs in the U.S.. The shares of its parent company are listed on the New York Stock Exchange
Customer G	FY2017: 4.3% (Rank: 5)	Since 2014	A merchandising company based in the Netherlands which is set up by a multinational toy specialty and juvenile-product retailer for importing toy products in its European market

The credit period granted to our top five customers ranges from 0 to 90 days, and some of them use letter of credit as payment of method in addition to the settlement of account within the credit period.

During the Track Record Period, except for a number of major and long-term customers or distributors, we did not normally enter into any framework agreement with our customers. We usually issue individual sales confirmation to our customers upon receiving their purchase order. Typical terms in individual sales confirmation include product type, quantity, unit price, payment method, credit term, delivery term and shipment date.

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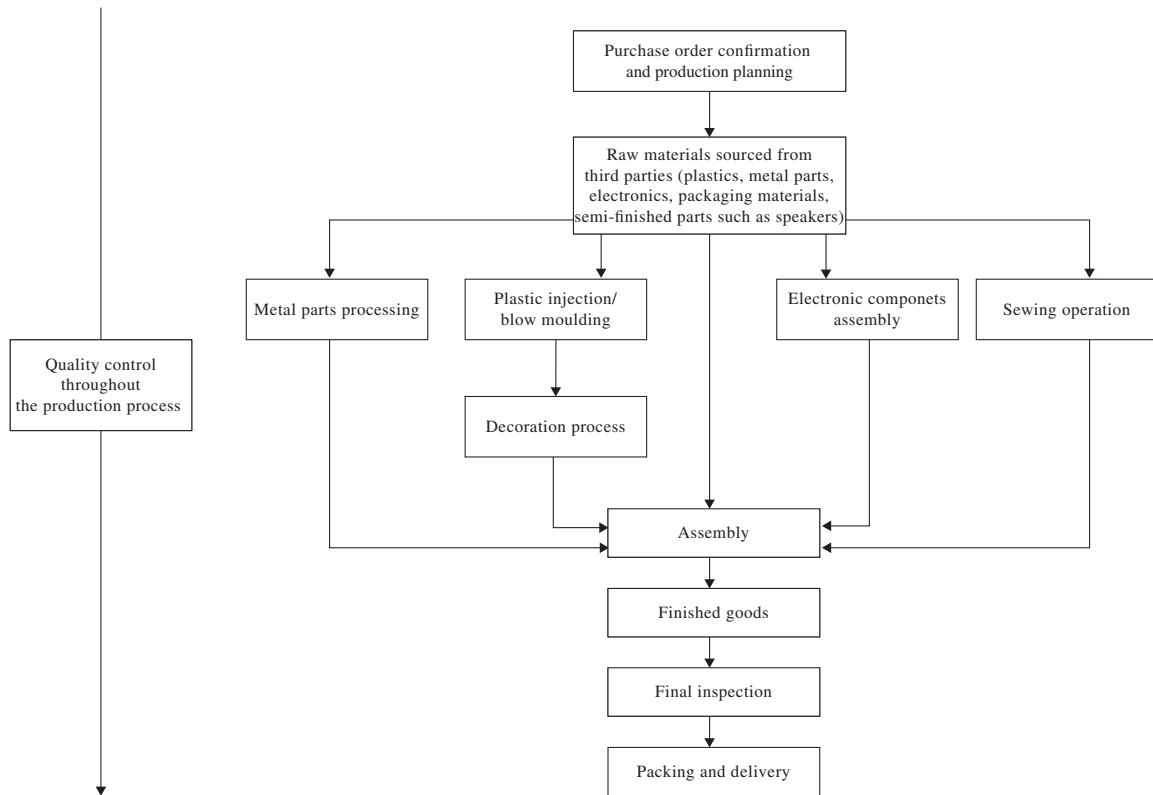
During the Track Record Period, we had complied with the sales confirmations issued to our customers in material respects, and we had not experienced nor were we aware of any circumstances leading to early termination of our framework sales agreement or contractual claims by our customers. Save for two major customers in the U.S. which we trade on POE terms, most of our overseas customers are on FOB terms.

PRODUCTION PROCESS AND PRODUCTION FACILITIES

We manufacture our products in our production plant in Dongguan, Guangdong Province, the PRC, which, together with our warehouse and other ancillary facilities occupy a site area of 91,879 sq.m.. We have comprehensive manufacturing capabilities which include plastic moulding, pad printing and spray painting, metal processing, sewing operation, processing of other parts, label printing and assembling.

Production process

The following chart illustrates our typical operation process by means of processing of purchased materials:



Operation process

Purchase order confirmation and production planning

Once purchase orders are received, we prepare the production schedule and evaluate our available resources, including raw materials and available manpower. Our production schedule would be based on the details of the purchase orders, such as product specification, delivery schedule and additional feature

required. With the details of the purchase order, our ERP system would generate a report on the quantity and types of raw materials required, and the operator would decide on whether to replenish the raw materials according to the report.

Production of parts for assembly

Metal parts processing

Depending on the types and specifications of the products, metal processing may be required in the production process. Metal bending is the primary process where metal tubes and other metal components are fabricated for our toy products through deforming and changing its shape through the use of die sets or bend brakes. The metal process are done through:

- (a) ***Primary processing*** — removes the rust on the metal by electrolysis using electricity and washing soda;
- (b) ***Coating*** — will be done after the rust removal process, where powder are blown into a thin fog or smoke and allowed to settle upon the surface of the metal; and
- (c) ***Metal bending and twisting*** — involves shape forming process, milling and soldering.

Plastic injection/blow moulding

There are generally two types of moulding:

- (a) ***Injection moulding*** — a process converting resins into different shapes, by melting and injecting plastic resins into the cavity of the mould, and the materials are then solidified again and formed the desired shape; and
- (b) ***Blow moulding*** — a process of forming hollow plastic parts, by melting down the plastic and forming it into a parison, the parison is then clamped into a mould, and pushes the plastic into the desired mould by pumping air into it.

Decoration Process

After the moulding process, the components will undergo the decoration process, which mainly involves pad printing, spray painting and silk screen printing. Depending on the surface and the patterns or characters to be printed on the final product, we may use different painting techniques such as spray painting, pad printing and silk screen printing. The following processes are commonly used in our decoration process:

- (a) ***Spray painting*** — a painting technique where a spray gun sprays a coating through the air onto the surface of plastic parts;
- (b) ***Pad printing*** — a painting technique where colour paint is transferred from an etched printing plate to a specified area of the plastic parts (usually involving flat surface) by a rubber pad;

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- (c) ***Silk screen printing*** — a printing technique in which colour paint is printed on a specified area of the plastic or fabric parts using a framed screen; and
- (d) ***Label application*** — depending on the types of products, brand label may be applied on the products.

Electronic components assembly

Depending on the requirements of the customers and production specifications, electronics parts would be processed for assembling with other components. Major steps involved in assembling are (i) insertion of electronic components such as resistors and capacitors on printed circuit boards by using insertion mount machines; (ii) bonding integrated circuit to the circuit boards using soldering machines and surface mounting machines; and (iii) printed circuit board assembling, where electronic components and surface-mount components are mounted to the printed circuit board.

Sewing operation

Where appropriate, sewing operation is required for our products, e.g. the plush bodies of rockers. Sewing operation involves cutting raw fabric into different shapes and sizes by press or laser cutting machines, which will then be sewn together to form the shape as required by the toy products, the products would be finished by hand stitching and excess fabric or threads would be trimmed away. Depending on the specifications of the customers, embroidery stitching and silk-screen printing process will be done on the cut fabric before sewing.

Assembly

After the plastic processing and painting process, the relevant parts will be assembled together with other electronics, metal, plush components and packaging materials as may be required for the final product.

Final inspection of the finished products

Final inspection of the product covers several aspects including appearance, structure and safety standard. Defects and flaws in the products would be set out in an evaluation form, and sub-standard products would be sent back to appropriate workstation for rectification, which will then go through inspection by the quality control team, and all the products within the same batch with the aforesaid defective products would be inspected again. We also engage third party testing laboratory to conduct various chemical testing, an accredited test certificate will be issued before commencement of the final production. Chemical tests include test on heavy metal, lead content and organic tests to ensure the substance in the finished products comply with the relevant standards. We conduct physical test in our in-house laboratory during production covers tensile, pressure, bite, strength, drop impact and flammability tests on the products to ensure safety and functionality of the products.

See the paragraph headed “Quality control” of this section for further details.

Packaging and delivery

Upon satisfaction of the final inspection, the final products will be packed in accordance with the customers' specifications and delivered to the customers. Variety of packaging facilities are used for our products, including blister sealing, clamshell packing, automatic packaging machines and shrink wrap. We engage third party service suppliers to provide packaging services whilst we produced the labels and instruction sheets.

Generally, the average production lead time ranges from 30 days to 60 days, depending on complexity, accumulated demand and specifications of the products and the availability of the relevant raw materials.

Production facility

We have one production plant which commenced operation in 1998 and is located in Tangxia, Dongguan, Guangdong Province, the PRC and occupy a site area of 91,879 sq.m.. Dongguan is conveniently located with proximity to port and transportation hub.

As at 30 April 2017, we have a total of 26 production lines including 16 assembling lines, 10 production lines for plush and electronics processing, which apportionment between plush and electronics function will be adjusted according to the production demand.

Processing Arrangement

Our products are manufactured by DG Kiddieland Industrial pursuant to certain manufacturing arrangement between Kiddieland Toys and DG Kiddieland Industrial. DG Kiddieland Industrial is a wholly-foreign owned enterprise which may perform processing work as well as carrying out domestic sales in the PRC on its own. Kiddieland Toys usually supply materials to DG Kiddieland Industrial and which in turn, it will supply toy products to Kiddieland Toys. For details of the arrangement, please refer to the paragraph headed "Transfer pricing arrangement" in this section of this prospectus.

Relevant processing trade approvals

Our PRC Legal Adviser have advised us that, as at the Latest Practicable Date, DG Kiddieland Industrial has obtained all necessary licences, certificates, approvals and permits for the processing trade arrangements. For the relevant applicable rules and regulations in the PRC, please refer to the section headed "Regulatory overview — Regulations in the PRC — Regulations relating to processing trade agreement" in this prospectus.

Please also refer to the section headed "Financial information — Description of selected items in consolidated statements of comprehensive income — Taxation" in this prospectus for information regarding the relevant tax implications of our processing trade arrangement.

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Major machinery and equipment

Equipment

As at 30 April 2017, various production equipment such as injection moulding machines, blow moulding machines, sewing machines, and forklifts were in place which cater for different stages of the production process. Our major machines and equipment have an estimated useful life ranging from 15 to 25 years. We planned to carry out renewal work or replace some of the machines. Please refer to “Business — Our strategies” for further details. The table below sets forth the major equipment used in our production process as at 30 April 2017:

	Quantity
Injection moulding machines	174
Blow moulding machines	13
Sewing machines	149
Forklifts	75
Milling machines	27
Automatic packaging machines	18
Automatic soldering machines	3
Robotic process automation arms	9
Electric discharge machines	10
Pad printing machines	49

Moulds and tools

Moulds and tools are crucial to the manufacturing of our toy components and were also one of our major capital expenditures during the Track Record Period. During the Track Record Period, we designed and fabricated our own mould for our toy products and also purchased from third party mould suppliers if needed. As at 30 April 2015, 2016 and 2017, the net book value of our moulds and tools amounted to HK\$34.5 million, HK\$28.9 million and HK\$26.1 million, respectively.

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Production capacity

The following table sets forth the theoretical maximum production capacity, actual production volume and average utilisation rate of our production facility for (i) ride-on toys; (ii) non-ride-on toys during the Track Record Period:

	For the year ended 30 April								
	2015			2016			2017		
	<i>Theoretical maximum production capacity (million pieces)</i>	<i>Actual production volume (million pieces)</i>	<i>Utilisation rate (%)</i>	<i>Theoretical maximum production capacity (million pieces)</i>	<i>Actual production volume (million pieces)</i>	<i>Utilisation rate (%)</i>	<i>Theoretical maximum production capacity (million pieces)</i>	<i>Actual production volume (million pieces)</i>	<i>Utilisation rate (%)</i>
Ride-on toys	3.26	2.71	83.0	3.33	2.36	70.8	3.30	2.00	60.5
Non-ride-on toys	1.79	1.52	84.8	1.75	1.28	72.8	1.74	1.09	62.2
Total	<u>5.05</u>	<u>4.23</u>	<u>83.6</u>	<u>5.08</u>	<u>3.64</u>	<u>71.5</u>	<u>5.04</u>	<u>3.09</u>	<u>61.1</u>

Notes:

- (1) Ride-on toys accounted for approximately 90% of our outdoor-and-sports toys products in terms of revenue. For simplicity and illustrative purpose, when calculating the production capacity and utilisation rate, we categorised our products into ride-on toys and non-ride-on toys.
- (2) Our production capacity is measured in terms of number of injections processed by moulding machines in the production of our toy products. We estimated our theoretical maximum production capacities based on the maximum number of injections per hour of our moulding machines, multiplied by 16 working hours a day (after deducting the setup time required for each batch of production) and 302 working days per year (excluding days required for repair and maintenance and public holidays), times the proportion of time allocated to the production of our ride-on toys and non-ride-on toys (based on actual production mix during the relevant year) and further divided by the average number of injections required to produce one unit of our ride-on toys and non-ride-on toys, respectively. There was no change in our total number of moulding machines during the Track Record Period and fluctuations in the theoretical maximum production capacity primarily reflected changes in our product mix during the Track Record Period.
- (3) Utilisation rate is derived by dividing the actual production volume during the relevant year by the theoretical maximum production capacity.
- (4) The decrease in our overall utilisation rate for FY2015, FY2016 and FY2017 was attributable to the decreases in purchase orders from our customers. However, the utilisation rate for our production peak seasons from May to August during the Track Record Period was over 90%.

Equipment maintenance

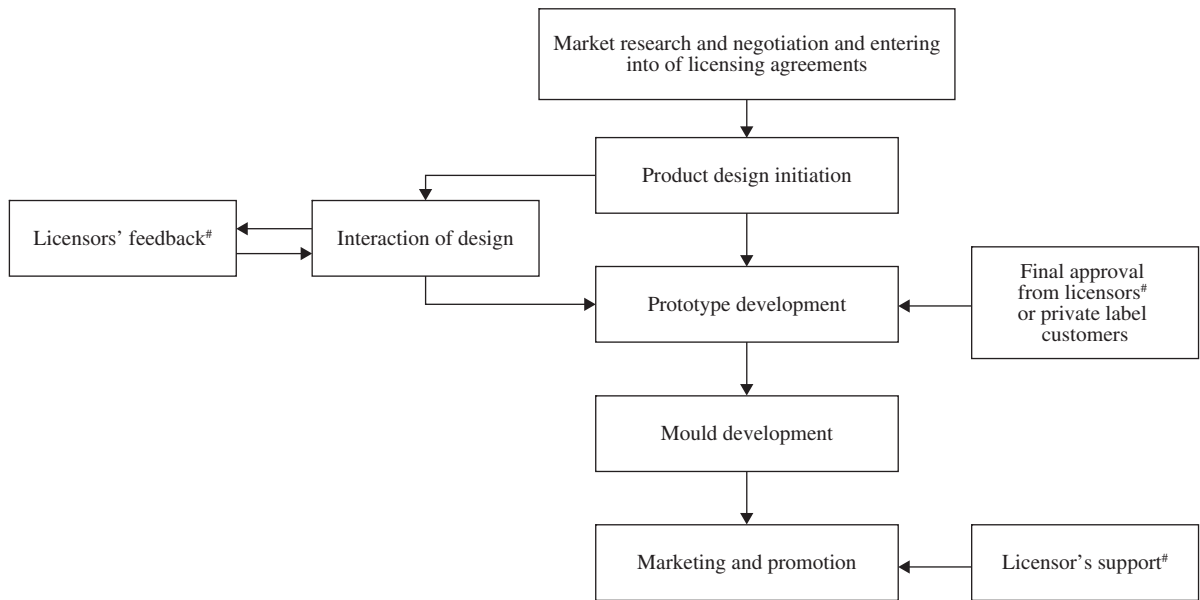
All the production equipment are owned by our Group. Some of the production equipment such as injection moulding machines have been used since our inception. See the paragraph headed “Business — Our strategies — Enhancement of production efficiency to achieve cost efficiency by replacing and upgrading existing injection moulding machines and addition of new equipment” in this section of further details. Our Group has implemented policies for annual and regular maintenance of the production equipment.

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PRODUCT DESIGN AND DEVELOPMENT

We are committed to creating new concepts and design, these efforts have contributed to our ability to continuously develop and launch new products with popular entertainment properties and other intellectual properties, in particular, Disney and Pixar characters. Generally, it takes a month to turn a design concept into a prototype; the time may be shortened if the customers have specific timeline to adhere to. Through our effort in the research and development, we have introduced light and sound features into our wheeled products, interactive preschool play patterns to our ride-on toy products and incorporated educational elements in our outdoor-and-sports toy products and infant-and-preschool toy products.

Set out below are typical processes involved in our product design and development process:



Only applicable to co-branded products

Our product design and development team comprises product designers, prototype craftsmen, mould makers, mechanical and electrical engineers and graphic designers. We gather market information about the latest trend of similar products in the global market by visiting and communicating with overseas customers to understand the latest trend, and communicate constantly with the design teams of the licensors to formulate a desirable design. In addition to product designers, who design the aesthetic outlook, play features and functions of the toys, as well as the engineering construction and safety aspects of our toy products, we engage third party music engineers who are based in U.S. and specialise in composition of children's music for creating the audio content. For packaging boxes, marketing materials and company catalogue, our graphic designers work closely with the graphic team of the licensors to finalise the design. During the Track Record Period, we attended sales meetings organised by licensors to understand their latest development, and participated in seminars offered by our customers, testing laboratories and government bodies to keep ourselves updated with the latest export regulations, country-specific requirements, testing standards for our toy products. After analysing the market information, we will evaluate new opportunities available, such as new licenses or new product categories. Before we initiate a product design, we would take into account some factors such as our

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technological know-how in product development, the current competitive landscape, our relationship with existing customers, potential market size and demand, and popularity level of up-and-coming entertainment properties and other intellectual properties.

Leveraging on our industry experience and market acumen, we have been able to secure cooperation with renowned licensors and manufacture products which are well received by the markets. As at 30 April 2017, our product design and development team consisted of 45 members, senior team members of which have an average of 11 years of experience in the relevant area. Some of them are well experienced in applying artistic sculpting techniques for creation of prototype. We also train our own specialists in the relevant areas through an apprenticeship program.

We have implemented a research and development policy to manage and monitor the use of funds in relation to our product design and development activities. We develop and review our annual budget for product design and development expenses according to the recent market trend and historical sales data. We would set our annual budget on at the beginning of each year.

For each of FY2015, FY2016 and FY2017, we incurred product design and development expenses which amounted to HK\$224,000, HK\$127,000 and HK\$156,000, which relate to costs involved in engineering and safety evaluation and creation of music and sound effects.

QUALITY CONTROL

We believe that our commitment to the high quality and safety of our products is key to our success and crucial to our future prospects. We place strong emphasis on product quality and safety by implementing a range of quality control measures as set out below.

In recognition of our quality in manufacturing processes, we have obtained ISO 9001:2008 certification since 2007 and our current certificate will be valid until June 2019. Our customers would also carry on factory audit in our manufacturing plant, and during the Track Record Period, we have satisfactorily passed the audit by our customers.

As a majority of our products are sold to the overseas markets, we are obliged to the relevant safety standards as required by the importing countries of our products. For example, requirement under the American Society for Testing and Materials (ASTM) F963 Toy Standard in the U.S., and conformity assessment procedure as required by European Commission Enterprise and Industry Directorate as required by E.U..

As at 30 April 2017, we had 60 quality control staff, who are responsible for implementing our quality control procedures by inspecting the quality of raw materials, observing and checking our production process, performing tests on work-in-progress and finished products. Our quality control team is headed by a quality control manager, who has 24 years of relevant experience and possesses an university degree. The supervisors of our quality control team have an average of eight years of experience in quality control and quality assurance and most of them possess secondary education.

Quality control of raw materials

We conduct sample testing on incoming raw materials to ensure that their quality and safety meet the prescribed standards of our Group and conform to our licensors' and customers' requirements.

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Raw materials supplied by suppliers are required to go through an incoming material quality control procedure (“**IQC**”). We require our suppliers to provide test reports produced by national accredited institutions of their raw materials to ensure that the level of eight identified types of poisonous or toxic components, such as heavy metals, is within the limit set by national standards. If such report is not available, we will submit the raw materials for third party testing. Upon delivery of raw materials by our suppliers, our IQC team will check details including the name and specification of such raw materials against the relevant test report. If the incoming materials fail to pass IQC, we will return the substandard and defective raw materials to the relevant suppliers for repair or replacement. Further, we conduct RoHS compliance testing at our laboratory for each batch of raw materials received. Should any of the raw materials fail the RoHS compliance testing, we will submit relevant samples for third party testing immediately.

Quality control in the production process

During production, to ensure that the products comply with the specifications and are free from defects, we carry out inspections at each stage of the production process. Quality control staff are stationed at each stage of the production process to screen out products which are defective and to ensure that the quality of the products satisfy our licensors’ or customers’ designs and specifications as well as our stringent quality standards.

Quality control of the finished goods

Once a product has been fully assembled, it is subject to testing and checking in accordance with the specified requirements. To maintain the high quality of our products, we perform full checking on all of our finished products. Unsatisfactory products will be reworked until they reached the requisite standards. In addition, our products are tested by our internal laboratory and third party laboratories.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims or complaints by our customers in respect of the quality of our products and there was no incident of failure of our quality control systems or penalties from relevant regulatory bodies which had a material and adverse impact on our business operations.

PRODUCT RETURN POLICY

Product return policy

We provide three types of defective allowance to our customers: (i) a pre-set defective percentage based on the value of sales, such allowance would be deducted from the amount of net sales; (ii) defective allowance for our customers on actual basis after end customers return goods to stores; and (iii) return of a whole shipment of goods to us due to manufacturing defect. During the Track Record Period, we did not experience material return of shipment.

Generally, request for return of a large batch of defective products will only be handled upon written request to us within one month of the arrival of goods at the port of destination. We would consider various factors and upon internal investigation, we would inform the customers whether the goods can be returned. Depending on our negotiation with the customers, we would bear all freight costs and any additional domestic logistics charges that are involved in the return of goods.

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In general, no product return or exchange by our customers is allowed except for malfunctions of or manufacturing defects in our products, and in such case, product return or provision of spare parts will be arranged on a case by case basis. As product return is provided on a case by case basis, and given the immaterial amount of product return during the Track Record Period, we did not make provision for such expenses.

After-sales services and handling customer complaints

To enhance customers' satisfaction on the products we offer, we have service hotlines for handling inquiries or complaints from end customers in the U.S. and Canada. Most of the inquiries concern missing part and minor issues, which can be properly handled by our sales team in Hong Kong and our sales representatives. We would consider to arrange goods return or provide spare parts for repair on a case-by-case basis.

OUR SUPPLIERS AND SERVICE PROVIDERS

We sourced our raw materials from third-party suppliers located in PRC, Taiwan and Hong Kong. Our principal raw materials include plastic resin, metal parts, electronic parts, printed box, pigment and chemical materials. For FY2015, FY2016 and FY2017, our total cost of inventories represented 46.7%, 42.6% and 38.5% of our cost of sales, respectively.

We select our suppliers according to criteria such as pricing, quality, lead time, reliability, creditworthiness and our past experiences when conducting business with them. We generally place procurement orders in large volumes. In addition, we generally require our suppliers to tender their offers in a competitive bidding process. We generally maintain several suppliers for each major type of raw materials to allow us to have a greater variety of raw materials at good quality, competitive prices and stable supply. For each of FY2015, FY2016 and FY2017, we purchased from 133, 128 and 119 suppliers, respectively. With our diverse base of suppliers, we did not experience a shortage or delay in the supply of raw materials which had imposed a material impact on us during the Track Record Period. Coupled with our industry experience in anticipating upcoming demand based on historical figures, we manage the costs of our raw materials and had not experienced any cost overrun as a result of the increase in the raw materials costs. We closely monitor the cost of raw material and adjust our product price from time to time. According to the CIC Report, the prices of plastic resin, being the major raw materials of our products, dropped during the Track Record Period.

We have developed a stable relationship with our key suppliers. Our purchases from our top five suppliers for FY2015, FY2016 and FY2017 accounted for 42.7%, 36.0% and 41.2% of total purchases for the corresponding years respectively and our purchases from our largest supplier accounted for 14.3%, 10.7% and 20.4% of our total purchases of the corresponding years, respectively. Our top five suppliers during the Track Record Period are plastic resin, packaging materials and electronic parts suppliers, which have maintained from 4 to 17 years of business relationship with us. During the Track Record Period, we generally pay our suppliers by letter of credit, bank transfer and cheque and we were offered a credit period ranging from 0 to 90 days.

To the best knowledge and belief of our Directors and after making all reasonable enquiries, none of our Directors or their respective close associates or any shareholder who owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, had any interest in any of the top five suppliers of our Group during the Track Record Period.

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Agreements with our suppliers

As we make purchase from our suppliers on a per order basis, we generally do not enter into long-term procurement agreements with them. Depending on the demand for the products and the stock level of the relevant materials, we source raw materials from our suppliers by way of placing purchase orders with them on a per order basis and the terms of purchases are negotiated for each purchase. The major terms of these purchase orders generally set out product specifications, unit price, and date of delivery, standard of quality and product warranty. As part of our quality control measures, our quality control department would inspect and ensure that the raw materials purchased have passed all the relevant safety standards as required by the importing countries of our products. For example, requirement under the American Society for Testing and Materials (ASTM) F963 Toy Standard in the U.S., and conformity assessment procedure as required by European Commission Enterprise and Industry Directorate as required by E.U..

During the Track Record period, we had not experienced nor were we aware of any circumstances leading to contractual claims by our major suppliers.

Arrangements with service providers

For certain steps of our production process, such as sewing, spray painting, bonding and silk screen printing, we engage third party service providers to provide such services where needed and to cater for delivery schedule of the customers when necessary. Our key service providers are principally engaged in providing local processing factories works. Our production department is involved in overall monitoring and inspection. All of our third party service providers were Independent Third Parties during the Track Record Period. We believe that such arrangement allows us to focus more on other key stage of our operation and deploy our resources in a more cost effective manner. During the Track Record Period, we did not experience any situation where our third party service providers breached the terms of our agreement with them or failed to fulfil our requirements that had a material impact on our operations.

For each of FY2015, FY2016 and FY2017, we maintained six, five and six service providers and relevant service fees incurred amounted to HK\$4.2 million, HK\$3.2 million and HK\$2.9 million, respectively, representing 1.1%, 1.0% and 1.1% of our cost of sales for the same period.

INVENTORY CONTROL AND WAREHOUSING

Majority of our inventory are stored in our warehouse located in Tangxia, Dongguan, Guangdong Province, the PRC and they primarily comprise raw materials, components and parts, work-in-progress and finished products. In addition, we have engaged warehousing services provider in the U.S. operated by an Independent Third Party to keep stock for a customer being a multinational mass market retailer operating retail chain stores who places domestic orders with us on a weekly basis. We generally keep a certain level of inventory for finished goods in our U.S. warehouse. Storage areas for major raw materials, such as ink, paint, plastic materials, packaging materials, are guarded by security staff during work hours and locked after work.

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Our procurement department identifies items which need replenishing at regular intervals to ensure uninterrupted production. As part of our warehouse management policy, our warehouse officers perform stock take periodically, and check on damaged or obsolete inventory. Reports on our warehouse inventory, which include information on inventory levels and value, can be generated to allow us to assess the sales performance of our inventory and to identify slow-moving inventory or products.

It is our strategy to minimise our inventory level. In terms of raw materials, we generally maintain a safety inventory level that is sufficient for about 20 days for our production use for our most crucial and generic materials, such as plastic resin. However, for some of the materials that have relatively short production lead time, such as printed boxes and packaging materials, we generally maintain a just-in-time inventory control policy. Furthermore, due to our limited production capacity of our injection moulding machines, we may plan our production of some common components such as wheels for ride-ons, ahead of time to cope with our production peak season in around May to August each year to accommodate shipment peak season in July to October due to the seasonality as further discussed in the paragraph headed “Business — Product life cycle and seasonality” in this section.

COMPETITION

Our Directors believe that the global market of toy manufacturing industry is highly fragmented with a large number of local and overseas players. Our Directors consider that competition within the industry is keen. Our Group competes with other manufacturers across the globe, which are similar to us in terms of product range, supplier management, pricing, sales network coverage and quality of products. With the highly fragmented market, we may face increasing number of competitors in our target markets and these competitors may have stronger financial resources, lower pricing and better business reputation than we do. See the section headed “Risk factors — Risks relating to our industry — We face increasing competition in the toy manufacturing industry.” of this prospectus for further details.

Even though the toy manufacturing industry is becoming increasingly competitive, through our established customer base and success in obtaining licensed rights of reputable entertainment properties and other intellectual properties, we believe we possess competitive advantages over our competitors. For details of the competitive landscape of the industry we are in, please refer to the section headed “Industry overview” in this prospectus.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Our operations are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC as well as regulations and monitoring by local work safety authorities. Our Group would be subject to fines, suspension of business or cessation of operations if there is any failure to comply with present or future laws and regulations.

We believe that our production process does not generate hazards that have any significant adverse effect on the environment and our environmental protection measures are adequate to comply with all applicable current local and national PRC regulations. For each of FY2015, FY2016 and FY2017, our cost of compliance with applicable environmental laws and regulations were approximately HK\$130,000, HK\$310,000 and HK\$640,000, respectively which was mainly attributable to the cost of water purification, maintenance of the sewage and water recycle systems. Our Directors currently expect that such cost of compliance for the year ending 30 April 2018 would be approximately HK\$446,000.

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We have implemented measures to address potential risks relating to work safety and health, such as (i) conducting on-going training and circulating operation manuals of production process to enhance our employee's awareness of safety and health issues at work; (ii) periodically inspecting the safety conditions of our production units; and (iii) implementing a management system for managing over-time work and holiday arrangement to ensure that the employees have proper rest and are properly compensated for over-time work, if any. In order to prevent and mitigate safety and health issues, we have also implemented set up communication platform, including email and hotline for our employees where they can complain or express their concerns over various aspect such as work arrangement, overtime compensation etc. on an anonymous basis.

During the Track Record Period and as at the Latest Practicable Date, we did not experience any material or prolonged stoppages of production due to equipment failure and we did not experience any severe accidents during our production process which caused a material effect on our Group's financial condition and results of operations.

INTELLECTUAL PROPERTY

We rely on a combination of trademark and other intellectual property laws to protect our product design, trade secrets and other intellectual property rights. As at the Latest Practicable Date, we had fifteen, one and one registered trademark(s) in the PRC, Hong Kong and France respectively. In addition, as of the Latest Practicable Date, we had two domain names. For details of our intellectual property portfolio, see the section headed "Statutory and general information — II. Further information about the business of our Group — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

For details of the licensing arrangements which we have entered into with various licensors, see the paragraph headed "Business — Our product brands and licensing arrangement — Licensing arrangements with licensors" of this section.

As at the Latest Practicable Date, we have not been sued for infringement of intellectual property rights by any third party, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us. We believe we have taken reasonable measures to prevent infringement of our own intellectual property rights.

INFORMATION TECHNOLOGY

Our information technology systems support our operations, inventory control, procurement, production and sales management. Our ERP system interfaces with our product replenishment system and central accounting system, and regulates our operation, production chain and financial management.

Our headquarter office in Hong Kong and our production plant are interconnected through ERP system and it enables us to monitor all sales data and inventory movement of purchase orders. Timely access to inventory and sales data allows our management to efficiently monitor sales performance and make appropriate adjustments in response to market conditions and customer purchasing behaviour. It also facilitates our procurement, marketing strategies and decisions making process. For financial reporting management, we compile financial statements based on the information in our ERP system which facilitates us in managing our fixed assets, accounts receivables and accounts payables.

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INSURANCE

As at the Latest Practicable Date, we have maintained insurance coverage in relation to our business that is adequate and is customary for our industry, including public liability insurance, property all-risks insurance, product liability insurance and employees' compensation insurance. We had not made any material claims on any insurance policy maintained by us during the Track Record Period. See the section headed "Risk factors — Our operation exposes us to various liability claims which may have a material adverse effect on our operating performance" of this prospectus for further details.

OUR PROPERTIES

As at the Latest Practicable Date, we leased two properties in Hong Kong for our use as headquarter and warehouse, and we occupied certain land and building properties in the PRC for our production facilities, warehouses and staff quarters as well as ancillary facilities.

Set out below details of the properties leased and occupied by our Group as at the Latest Practicable Date.

Properties that we leased in Hong Kong

Location	Lease term	Usage	Monthly rental	Identity of landlord
14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong	1 June 2016– 31 May 2018	Headquarter (office and showroom)	HK\$480,000	Top Dragon, a connected person (Note)
11/F, Yat Sang Industrial Building, No. 13 Tai Yip Street	1 April 2016– 31 March 2018	Warehouse	HK\$24,825	Independent Third Party

Note: Please refer to the section headed "Connected transaction" in this prospectus for more details about this leased property.

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Properties that we occupied in the PRC

Our production and ancillary facilities located at Gao Li Industrial Area, Tangxia, Dongguan, Guangdong Province, the PRC, with a site area of approximately 91,879 sq. m. (“**DG Kiddieland Factory Land**”). The following table sets out the approximate gross floor area, usage and the permit obtained for each building properties occupied by us as at the Latest Practicable Date:

Property and usage	Approximate GFA (sq.m.)	Permit obtained (Note)
<i>Production Plants situated on the Production Plant Land⁽⁴⁾</i>		
1. Factory block A, B, C (Workshops, office and warehouse)	27,000	1, 2, 3
2. Factory block D (Warehouse)	10,000	—
3. Electrical power room	204	1, 2, 3
<i>Ancillary Properties situated on the Remaining Land⁽⁵⁾</i>		
4. Factory block E (Workshops and warehouse)	13,763	3
5. Factory block F (Warehouse)	11,630	3
6. Staff dormitory block A	2,052	1, 2, 3
7. Staff dormitory block B	2,052	1, 2, 3
8. Staff dormitory block C	2,052	1, 2, 3
9. Staff dormitory block D	1,977	1, 2, 3
10. Staff dormitory block E	3,489	3
11. Canteen	1,404	1, 2, 3
12. Garbage room	315	—
13. Garage	238	—

Notes:

- (1) Planning Permit for Construction Project (建設工程規劃許可證) (the “**Planning Permit**”)
- (2) Construction Permit for Construction Project (建築工程施工許可證) (the “**Construction Permit**”)
- (3) Completion and Acceptance Permit for Construction Project (建築工程驗工驗收證書) (the “**Completion Permit**”)
- (4) Properties number 1, 2 and 3 above are defined as “**Production Plants**” and are erected on the Production Plant Land (as defined below).
- (5) Properties 4 to 13 above are defined as “**Ancillary Properties**” and are erected on the Remaining Land (as defined below).

(A) Background of the properties occupied by us in the PRC and relevant title defects

Our Group does not possess valid land use right certificates (土地使用權證書) for the DG Kiddieland Factory Land and the real estate ownership certificates (不動產權證書) for all the buildings erected thereon as listed in the table above.

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The DG Kiddieland Factory Land was originally occupied and used by Dongguan City Tangxia Town Economic Development Company (東莞市塘廈鎮經濟發展總公司) (“**Economic Development Company**”), which was then collectively owned by peasants for agricultural use and was resumed from the then Tangxia Town Qinghutou Management Region (塘廈鎮清湖頭管理區) (currently the Dongguan City Tangxia Town Qinghutou Joint-equity Economic Union (東莞市塘廈鎮清湖頭股份經濟聯合社) (“**Qinghutou Economic Union**”)) and the then Tangxia Town Pingshan Management Region (塘廈鎮平山管理區) (currently The Fifth Joint-equity Economic Cooperative of Dongguan City Tangxia Town Pingshan Region (東莞市塘廈鎮平山第五股份經濟合作社) (“**Pingshan Economic Cooperative**”). Pursuant to an agreement for the use of land with compensation (《有償使用土地合同書》) entered into between our Group and the Economic Development Company on 1 December 1997 as supplemented by a supplemental agreement dated 29 September 2013 (“**Land Use Agreements**”), (i) our Group shall have the right to use the DG Kiddieland Factory Land for a term of 50 years from 1 December 1997 to 30 November 2047 in consideration of the land use right compensation in the amount of RMB3.42 million; and (ii) the DG Kiddieland Factory Land shall be used for establishment of a factory and ancillary facilities.

As advised by our PRC Legal Adviser, the DG Kiddieland Factory Land was collectively-owned by peasants and may not be transferred for non-agricultural use according to the aforementioned Land Administration Law of the PRC 《中華人民共和國土地管理法》, as such, the Land Use Agreements were invalid.

Pursuant to a Decision on Administrative Penalty (《行政處罰決定書》) (“**Decision on Administrative Penalty**”) issued by Dongguan City State-owned Land Resources Bureau (東莞市國土資源局) (“**Dongguan Land Bureau**”) on 5 September 2016, the Dongguan Land Bureau confirmed that the occupation and use of the DG Kiddieland Factory Land by DG Kiddieland Industrial conforms with the designated use of the land (i.e. for construction use), but the procedures to obtain the right to use the relevant land have not been complied with and as such were in violation of the Land Administration Law of the PRC. Accordingly, DG Kiddieland Industrial was ordered to return the DG Kiddieland Factory Land to the owners of the land and was fined in the amount of RMB918,788 (the “**Administrative Fine**”) in respect of the unlawful use of the DG Kiddieland Factory Land. Our Group has fully settled the Administrative Fine and returned the DG Kiddieland Factory Land according to the Decision on Administrative Penalty in September 2016.

On 5 January 2017, the deputy director (副局長) of Tangxia Sub-bureau, which is a competent authority, confirmed at an interview with our PRC Legal Adviser that as DG Kiddieland Industrial has (i) returned the DG Kiddieland Factory Land to Qinghutou Economic Union and Pingshan Economic Cooperative, and (ii) paid the Administrative Fine, no further administrative penalty will be imposed by the bureau on DG Kiddieland Industrial. Accordingly, we are advised by our PRC Legal Adviser that the possibility of imposing further administrative penalty in respect of the unlawful use of the DG Kiddieland Factory Land on our Group by relevant land resources bureau prior to obtaining the land use right certificates for Production Plant Land is remote.

(B) Rectification actions

Amongst the building properties situated on the DG Kiddieland Factory Land, the Production Plants housing our injection moulding machines and other production facilities, office and warehouse are situated on a portion of the DG Kiddieland Factory Land with total site area of 37,616 sq.m. (the “**Production Plant Land**”) whereas the Ancillary Properties which are only warehouse, ancillary

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workshops, dormitories and canteen for employees and certain ancillary facilities are situated on the remaining portion of the DG Kiddieland Factory Land with total site area of 54,263 sq.m. (the “**Remaining Land**”). Our Directors consider that the facilities housed in the Ancillary Properties are not part of our core production facilities, and in the event that DG Kiddieland Industrial is being evicted from any of such Ancillary Properties due to lack of requisite permits, there are no practical difficulties in finding alternative housing and supply of meals for our employees and it is expected that there will not be material adverse impact on our production and operations.

Given the above, our Group plans to obtain the land use right certificates for the Production Plant Land and the real estate ownership certificates for the Production Plants while we lease the Ancillary Properties pursuant to the Pingshan Agreement and Qinghutou Agreement described below.

As advised by our PRC Legal Adviser, the Production Plant Land is owned by peasant collectives (i.e. Pingshan Economic Cooperative and Qinghutou Economic Union), DG Kiddieland Industrial shall apply for the Production Plant Land to be expropriated by the state while making a supplemental application for the state-owned land use right certificates. To achieve this, the state will (i) expropriate the Production Plant Land owned by Qinghutou Economic Union and Pingshan Economic Cooperative and convert the Production Plant Land from the status of a peasant collective ownership to a state ownership; and (ii) transfer the land use right of the Production Plant Land to DG Kiddieland Industrial. In the process of land expropriation, compensation should be made to Qinghutou Economic Union and Pingshan Economic Cooperative.

Given the above, our Group has undertaken or plans to undertake the following ratification actions.

(i) *Filing of Supplemental Application for Land Use Right Certificates for Production Plant Land*

Each of Pingshan Economic Cooperative and Qinghutou Economic Union owns a portion of the Production Plant Land and the Remaining Land. Based on a survey map issued by Dongguan City Tangxia Survey and Mapping Unit in July 2016, the total area of DG Kiddieland Factory Land was 91,879 sq.m., among which 65,017 sq.m. of land belongs to Pingshan Economic Cooperative and 26,862 sq.m. of land belongs to Qinghutou Economic Union. In respect of the Production Plant Land of 37,616 sq.m., 23,503 sq.m. of which belongs to Pingshan Economic Cooperative and 14,113 sq.m. of which belongs to Qinghutou Economic Union. In order to obtain the state-owned land use rights certificates, DG Kiddieland reached consensus with each of Pingshan Economic Cooperative and Qinghutou Economic Union in respect of the portion of Production Plant Land owned by them to be expropriated by the state.

DG Kiddieland Industrial has entered into land expropriation compensation agreements with Pingshan Economic Cooperative and Qinghutou Economic Union on 27 December 2016 and 13 January 2017, respectively, pursuant to which (i) DG Kiddieland Industrial shall pay land expropriation compensation of RMB4,230,540 to Pingshan Economic Cooperative and RMB2,540,340 to Qinghutou Economic Union in respect of the portion of Production Plant Land owned by them; and (ii) prior to obtaining of the relevant state-owned land use right certificate and real estate ownership certificate by DG Kiddieland Industrial in respect of the Production Plant Land and Production Plants erected thereon, DG Kiddieland Industrial shall have the right to continue to use the Production Plant Land without any interference from the Pingshan Economic Cooperative and Qinghutou Economic Union. The abovementioned land expropriation compensations in aggregate amount of RMB6,770,880 (the “**Land Expropriation Compensation**”) had been fully settled in January 2017.

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On 27 December 2016, DG Kiddieland Industrial entered into an agreement with Pingshan Economic Cooperative (the “**Pingshan Agreement**”) in respect of the portion of DG Kiddieland Factory Land with site area of 65,017 sq.m. owned by Pingshan Economic Cooperative. Pursuant to the Pingshan Agreement, the parties agreed that as DG Kiddieland Industrial will make supplemental application to obtain the land use rights certificate of the portion (with site area of 23,503 sq.m.) of Production Plant Land owned by Pingshan Economic Cooperative and obtain the real estate ownership certificate in respect of the buildings erected thereon, (i) the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; and (ii) the rights and obligations of the buildings erected on the Remaining Land owned by Pingshan Economic Cooperative shall be enjoyed and borne by Pingshan Economic Cooperative but such buildings shall be provided to DG Kiddieland Industrial for use at nil consideration until 30 November 2047 and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings.

On 13 January 2017, DG Kiddieland Industrial entered into an agreement with Qinghutou Economic Union (the “**Qinghutou Agreement**”) in respect of the portion of DG Kiddieland Factory Land with site area of 26,861 sq.m. owned by Qinghutou Economic Union. Pursuant to the Qinghutou Agreement, the parties agreed that as DG Kiddieland Industrial will make supplemental application to obtain the land use rights certificate of the portion (with site area of 14,113 sq.m.) of Production Plant Land owned by Qinghutou Economic Union and obtain the real estate ownership certificates in respect of the buildings erected thereon, (i) the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; and (ii) the rights and obligations of the buildings erected on the Remaining Land owned by Qinghutou Economic Union shall be enjoyed and borne by Qinghutou Economic Union but such buildings shall be leased to DG Kiddieland Industrial at nil consideration, the term of aforesaid lease is 20 years and thereafter shall be automatically renewed to 30 November 2047. DG Kiddieland Industrial has also on 22 December 2016 entered into a tenancy agreement with Qinghutou Economic Union in respect of the lease of the buildings erected on the Remaining Land owned by Qinghutou Economic Union for a term of 20 years and thereafter shall be automatically renewed to 30 November 2047 and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings.

Given the fact that the Ancillary Properties erected on the Remaining Land were built by DG Kiddieland Industrial at its own cost, as such, Pingshan Economic Cooperative and Qinghutou Economic Union agreed to provide the Ancillary Properties to DG Kiddieland Industrial for use at nil consideration until 30 November 2047 under the arrangement of the Pingshan Agreement and Qinghutou Agreement. As advised by our PRC Legal Adviser, the Pingshan Agreement and Qinghutou Agreement are legally valid and effective.

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As advised by our PRC Legal Adviser, according to the Implementation Rules for Supplemental Application for Land Rights Certificates of Established Properties of Dongguan City (東莞市已建房屋補辦土地權利證書實施細則) (the “**Implementation Rules**”) and the Supplemental Regulations on the Implementation Rules for Supplemental Application for Land Rights Certificates of Established Properties of Dongguan City (東莞市已建房屋補辦土地權利證書實施細則補充規定)(the “**Supplemental Regulations**”), the key steps involved in making supplemental application for land use right certificates are:

1. amongst others, (i) the preparation and submission of the requisite documents to the Tangxia sub-bureau of Dongguan City State-owned Land Resources Bureau (東莞市國土資源局塘廈分局) (“**Tangxia Sub-bureau**”); (ii) Tangxia Sub-bureau and the planning administrative department at Tangxia having conducted site visit and cadastral survey for the Production Plant Land; (iii) the obtaining of the consents from Pingshan Economic Cooperative and Qinghutou Economic Union (the owner of the land concerned); (iv) assessment by Tangxia Sub-bureau as to whether the Group has fulfilled the relevant conditions for the application, such as whether the use of the Production Plant Land is in line with the general land use planning and whether the title to land is clear and accurate; and (v) payment of the fine imposed in respect of the unlawful use of land having been made;
2. amongst others, (i) after Tangxia Sub-bureau has reviewed and approved that the Group has fulfilled all conditions for application, Tangxia Sub-bureau shall submit (together with other applications of the region to one batch) the application to Dongguan Land Bureau for approval; after approval of the Dongguan Land Bureau has been obtained, application for land expropriation shall be submitted (together with other applications of the region to one batch) to Guangdong provincial government for approval and (ii) obtaining the approval from the Guangdong provincial government;
3. obtaining approval documents from relevant governmental authorities for planning and land resources bureau, including the Construction Land Planning Approval (建設用地規劃批准書) from relevant planning department and approval document (建設用地批覆文件) from land resources bureau;
4. signing of a state-owned construction land use rights transfer agreement;
5. obtaining new Construction Land Planning Permit (建設用地規劃許可證); and
6. obtaining land use right certificate.

Relevant steps completed and the PRC Legal Adviser’s view on the remaining steps

As at the Latest Practicable Date, we have completed step 1 and (i) of step 2, i.e. Dongguan Land Bureau has reviewed and approved that our Group has fulfilled all conditions in making supplemental application for land expropriation to the provincial government, and Guangdong Province State-owned Land Resources Bureau (“**Guangdong Land Bureau**”), as part of the Guangdong provincial government, has acknowledged receipt of the relevant application documents on 13 July 2017. As advised by our PRC Legal Adviser, the work which is most crucial and probable to encounter impediments in making the supplemental application for land use right certificates had been completed.

On the basis that (i) DG Kiddieland Industrial meets all the statutory requirements and prescribed conditions for supplemental application of land use right certificate; (ii) Tangxia Sub-bureau, and especially Dongguan Land Bureau have both conducted substantive examination and have both agreed DG Kiddieland Industrial's land expropriation application, and confirmed that all the documents required to be submitted to Guangdong provincial government are complete and is in conformity with all requirements of the provincial government, and Guangdong Land Bureau has acknowledged receipt of the relevant application documents; (iii) the nature of the Production Plant Land was already been converted to non-agricultural construction land before July 2001, and therefore DG Kiddieland Industrial does not require the approval for the conversion from agricultural land to non-agricultural construction land in its application process, which is consider to be a more straightforward in obtaining the approval from Guangdong provincial government; (iv) both Tangxia Sub-bureau and Dongguan Land Bureau, both are competent authorities, have confirmed during the interviews that all remaining steps to be completed by DG Kiddieland Industrial are merely procedural, and that there is no practical impediment for the DG Kiddieland Industrial to obtain the land use right certificates for the Production Plant Land; and (v) an officer of Dongguan Land Bureau, which is a competent authority, confirmed during a telephone enquiry by the PRC Legal Adviser on 22 June 2017 that there was no incident of rejection by Guangdong provincial government for land expropriation applications submitted by them during the year 2016 and 2017 as all land expropriation applications had been carefully examined and approved by the Dongguan Land Bureau prior to submission to the Guangdong provincial government, our PRC Legal Adviser is of the opinion which Jingtian & Gongcheng also concur, that there is no material legal impediment for DG Kiddieland Industrial to obtain the land use right certificates for the Production Plant Land.

Estimated cost and time involved in the remaining steps

As advised by our PRC Legal Adviser, according to the Implementation Rules and the Supplemental Regulations, in general, it takes about (a) 9 to 12 months to complete step 2; (b) 10 working days, 7 working days and 7 working days to complete steps 3, 5 and 6 respectively, excluding the time for applicants to pay relevant taxes and fees, and signing of a state-owned construction land use rights transfer agreement. The timeline of step 4 is not stipulated in the Implementation Rules or the Supplemental Regulations.

We will need to enter into a state-owned construction land use right transfer agreement under step 4. According to the Notice of the Ministry of Land and Resources and the State Administration for Industry and Commerce on Promulgating the Model Texts of State-owned Construction Land Use Right Transfer Agreement (國土資源部、國家工商行政管理總局關於發佈《國有建設用地使用權出讓合同》示範文本的通知) (Guo Tu Zi Fa [2008] No. 86), the key terms under the model texts of the state-owned construction land use right transfer agreement (“**Model Texts of the Land Use Right Transfer Agreement**”) include:

- a. the total area and location of the land to be transferred;
- b. the usage of the land to be transferred;
- c. the delivery date and conditions of the land (in the case of supplemental application for the state-owned land use right certificate, the land shall be delivered to the transferee based on its current status);

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- d. the term of transfer of the state-owned construction land use right; and
- e. the transfer price and payment term (parties under the agreement could choose to pay in a lump sum payment at one time or pay by instalments).

Regarding the timeline of Step 4, according to the Circular of the Ministry of Land and Resources on Issues Concerning the Strengthening of Real Estate Development Land Supply and Supervision (國土資源部關於加強房地產用地供應和監管有關問題的通知) (Guo Tu Zi Fa (2010) No. 34), a land transfer agreement must be signed within 10 working days after the term of land transfer agreement is reached, the down payment equal to half of the total land transfer price must be made within one month after the signing of the land use right transfer agreement, and remaining payments must be made according to the terms of the land use right transfer agreement within a period of no more than one year.

Further, according to the Implementation Rules and the Supplemental Regulations, as the Group has settled the Administrative Fine and the Land Expropriation Compensations in step 1, the material costs for the completion of the remaining steps are: (a) a land expropriation administration fee in the amount of approximately RMB140,000 and the farmland reclamation fee in the amount of approximately RMB175,000 for Factory block D and a farmland occupation tax expense in the amount of approximately RMB1,880,000 in step 2; (b) a land transaction fees in the amount of approximately RMB18.8 million and a deed tax expense in the amount of approximately RMB560,000 in step 4; and (c) minimal administration fee to be incurred in step 3, step 5 and step 6. As such costs will be settled by stages and by instalments, our Directors plan to finance such costs by the internal financial resources of our Group and/or bank loan where consider necessary.

(ii) Obtaining the real estate ownership certificates for Production Plants

On 6 July 2016, the director (局長) of Dongguan City Tangxia Town Building Planning and Construction Bureau (東莞市塘廈鎮住房規劃建設局), which is a competent authority, confirmed in an interview with our PRC Legal Adviser that subject to our Group obtaining the land use right certificates for the Production Plant Land, there is no legal impediment in obtaining the real estate ownership certificates for the Production Plants.

Among the Production Plants, we have not obtained the Planning Permit, Construction Permit and the Completion Certificate for factory block D. On 5 January 2017, the deputy director of Tangxia Sub-bureau of Dongguan Urban Administration Bureau (東莞市城市綜合管理局塘廈分局), which is a competent authority, confirmed in an interview with our PRC legal adviser that (i) generally only illegal structures that are established recently or under construction will be ordered to be demolished and the bureau will not demolish established illegal structures for the reason of not having obtained the Planning Permit alone; (ii) no demolition order has been issued against established illegal structure in recent years; and (iii) in the event that a demolition order is issued, the date of demolition will generally be six months after the date of issue of the order. According to the Construction Law of the PRC (中華人民共和國建築法) and the Ordinance on Quality Management of Construction Projects (建設工程質量管理條例), our PRC Legal Adviser advised that, no demolition order will be issued for not obtaining the Construction Permit and the Completion Certificate. Furthermore, given that there was no demolition order had been issued to the Group since the establishment of our DG Kiddieland Factory, our PRC Legal Adviser further advised that the possibility of factory block D being ordered to be demolished is remote. Please see the paragraphs headed “Legal Compliance” in this section for further details of this non-compliance incident.

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Base on the above, our PRC Legal Adviser advised that (i) the Planning Permit, Construction Permit and Completion Certificate shall be obtained before obtaining the real estate ownership certificate in respect of factory block D. Pursuant to the Implementation Rules for Supplemental Application for Real Estate Ownership Certificates of Established Properties of Dongguan City (東莞市已建房屋補辦房地產權證實施細則) and the Supplemental Regulations on the Implementation Rules for Supplemental Application for Real Estate Ownership Certificates of Established Properties of Dongguan City (東莞市已建房屋補辦房地產權證實施細則補充規定) (collectively the “**Regulations for Supplemental Application for Real Estate Ownership Certificates**”), the Office of Application of the Real Estate Ownership Certificates of Established Properties of Tangxia Town (塘廈鎮已建房屋補辦房地產權手續工作辦公室) shall represent DG Kiddieland Industrial to make supplemental applications for the said permits and certificate to the relevant departments of Dongguan City. The relevant departments of Dongguan City are required to issue the permits and certificates within 10 working days after the application documents are accepted; (ii) except for the fact that additional time and procedure involved in obtaining the real estate ownership certificate for factory block D, given the Production Plants (including factory block D) fulfils the legal conditions for the supplement application of real estate ownership certificates, there is no material legal impediment in obtaining the Planning Permit, Construction Permit and Completion Certificate for factory block D as well as the real estate ownership certificates for the Production Plants.

Our PRC Legal Adviser further advised that according to the Regulations for Supplemental Application for Real Estate Ownership Certificates, the material cost of obtaining the real estate ownership certificates for Production Plant Land are (a) a taxes and fees of approximately RMB400,000; and (b) penalties in the amount of no more than RMB1,268,000.

(iii) Lease of Ancillary Properties on the Remaining Land

We are currently leasing the Ancillary Properties from Pingshan Economic Cooperative and Qinghutou Economic Union according to the arrangement under the Pingshan Agreement and the Qinghutou Agreement.

As advised by our PRC Legal Adviser, the Pingshan Agreement and Qinghutou Agreement are legally valid and effective, our Group possesses the legal right to use the Ancillary Properties pursuant to the Pingshan Agreement and Qinghutou Agreement, except for (i) buildings without Completion Certificate and valid fire services completion certificate (being the garbage room and garage, properties no.12 and 13 in the table above), and (ii) the portion of term of the Pingshan Agreement exceeding 20 years will be considered invalid in accordance with the Contract Law in the PRC. When the lease period has expired, the parties may renew the leasing contract, but the lease period agreed upon may not be more than twenty (20) years from the date of the renewal. Pursuant to the Administrative Measures for Leasing of Housing in Dongguan City (東莞市房屋租賃管理辦法), the original lessee has the first right to renew the lease of the premises under the same conditions. As Pingshan Economic Cooperative and Qinghutou Economic Union have both agreed in the Pingshan Agreement and Qinghutou Agreement to lease the aforementioned buildings to DG Kiddieland Industrial until 30 November 2047, our directors confirm that DG Kiddieland Industrial may renew the Pingshan Agreement and Qinghutou Agreement once the execution of which have reached 20 years, and it is unlikely that Pingshan Economic Cooperative or Qinghutou Economic Union would not agree to the renewal. Our Directors confirmed that in the event that the Pingshan Agreement and Qinghutou Agreement (in respect of the garbage room

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and garage) are ruled to be invalid by the courts of the PRC and that DG Kiddieland Industrial will not be able to use the garbage room and garage, there will not be material adverse impact on our production and operations.

(iv) Lease of Production Plants in the event that the supplemental application to obtain the land use right certificate of the Production Plants Land is rejected by the relevant PRC government authorities

On 14 July 2017, DG Kiddieland Industrial entered into an agreement with Pingshan Economic Cooperative (the “**Pingshan Agreement II**”) in respect of the portion of DG Kiddieland Factory Land with site area of 65,017 sq.m. owned by Pingshan Economic Cooperative. Pursuant to the Pingshan Agreement II, the parties further agreed that in the event that the supplemental application to obtain the land use right certificate of the relevant portion of Production Plant Land is rejected by the PRC Government authorities and such rejection is irrevocable and shall take effect, (a) the buildings erected on such portion of the Production Plant Land with site area of 23,503 sq.m. shall then belong to Pingshan Economic Cooperative, and the rights and obligations of the buildings erected thereon shall be enjoyed and borne by Pingshan Economic Cooperative; and (b) Pingshan Economic Cooperative agrees that such buildings shall be provided to DG Kiddieland Industrial for use at nil consideration until 30 November 2047, and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings.

On 20 July 2017, DG Kiddieland Industrial entered into an agreement with Qinghutou Economic Union (the “**Qinghutou Agreement II**”) in respect of the portion of DG Kiddieland Factory Land with site area of 26,861 sq.m. owned by Qinghutou Economic Union. Pursuant to the Qinghutou Agreement II, the parties further agreed that in the event that the supplemental application to obtain the land use right certificate of the relevant portion of Production Plant Land is rejected by the PRC Government authorities and such rejection is irrevocable and shall take effect, (a) the buildings erected on such portion of Production Plant Land with site area of 14,113 sq.m. shall then belong to Qinghutou Economic Union, and the rights and obligations of the buildings erected thereon shall be enjoyed and borne by Qinghutou Economic Union; and (b) Qinghutou Economic Union agrees that such buildings shall be provided to DG Kiddieland Industrial for use at nil consideration for a term of 20 years, and thereafter shall be automatically renewed to 30 November 2047, and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings.

Given the fact that the Production Plants erected on the Production Plant Land were built by DG Kiddieland Industrial at its own cost, as such, Pingshan Economic Cooperative and Qinghutou Economic Union agreed to provide the Production Plants to DG Kiddieland Industrial for use at nil consideration until 30 November 2047 under the arrangement of the Pingshan Agreement II and Qinghutou Agreement II.

As advised by our PRC Legal Adviser, the Pingshan Agreement II and Qinghutou Agreement II are legally, valid and effective except for (i) Factory block D without Completion Certificate, and (ii) the portion of the term of Pingshan Agreement II and Qinghutou Agreement II exceeding 20 years will be considered invalid in accordance with the Contract Law of the PRC. The Directors confirmed that in such event, they will endeavor to enter into a renewal lease agreement with Pingshan Economic Cooperative and the Qinghutou Economic Union once the execution of which have reached 20 years. Our PRC Legal Adviser further advised according to The Administrative Measures for Leasing of

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Housing in Dongguan City (東莞市房屋租賃管理辦法), the original lessee has the first right to renew the lease of the premises under the same conditions. As Pingshan Economic Cooperative and the Qinghutou Economic Union have both agreed in the Pingshan Agreement II and Qinghutou Agreement II to lease the Production Plants to DG Kiddieland Industrial until 30 November 2047, and it is unlikely that Pingshan Economic Cooperative or Qinghutou Economic Union would not agree to the renewal.

Given the above, our Directors consider that, even if in the most extreme and worst scenario that our Group could not obtain the land expropriation approval from the Guangdong provincial government and is unable to further proceed to obtain the land use right certifications of the Production Plant Land and the real estate ownership certificates of the Production Plants, our Group is still entitled to use the Production Plants pursuant to Pingshan Agreement II and Qinghutou Agreement II under a long term lease arrangement. Further, our Directors confirmed that in the event that the Qinghutou Agreement II (in respect of the factory block D) are ruled to be invalid by the courts of the PRC and that DG Kiddieland Industrial will not be able to use the factory block D, there will not be material adverse impact on our production and operations as relevant contingency plans have been formulated as detailed below.

Our Directors further advised that, as there will be no additional cost to be incurred under the Pingshan Agreement II and Qinghutou Agreement II, there will be no adverse financial impact to our Group in the event that the Group continue to use the Production Plants under a long term lease pursuant to the Pingshan Agreement II and Qinghutou Agreement II.

(C) Contingency plans

As advised by our PRC Legal Adviser under the sub-paragraph headed “Relevant steps completed and the PRC Legal Adviser’s view on the remaining steps” in this section that there is no material impediment for our Group to obtain the land use right certificates for the Production Plant Land and our Group shall have the right to continue to use the Production Plants prior to obtaining the relevant state-owned land use right certificates pursuant to the expropriation compensation agreements with Pingshan Economic Cooperative and Qinghutou Economic Union. Also, amongst the buildings properties of the Production Plants, our Group has obtained the Planning Permit, Construction Permit and Completion Certificate for factory blocks A, B, C and electrical power room, as confirmed by our PRC Legal Adviser, such buildings are free from any risk of being demolished. Based on the above, our Group did not plan to relocate the facilities located in factory blocks A, B, C and electrical power room within the Production Plant Land to the Backup Site.

Our factory block D (property no. 2), which erected on the Production Plant Land, and properties number 4, 5, 10, 12 and 13 of the Ancillary Properties do not possess relevant permits or certificates as listed on page 140 of this prospectus. In the event that we are being evicted from such premises due to lack of relevant permits and certificates, we have identified a suitable replacement premises and formulated a relocation plan to rearrange and relocate the workshops and facilities housed in factory block D, which the Directors considered to be material to our Group’s operation, and the Ancillary Properties for contingency purposes.

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We have identified a suitable factory complex with total gross floor area of approximately 37,046 sq. m. (the “**Backup Site**”) and we have entered into a pre-lease agreement (the “**PLA**”) on 1 September 2016 with the landlord of the backup factory (the “**Backup Factory Landlord**”) as supplemented by a supplemental agreement dated 19 January 2017. The material terms of PLA are summarised below:

Term	From the date of the PLA up till termination by mutual consent
Backup factory	One factory building and two dormitories (東莞市塘廈清湖頭友誼路1號) No. 1 Youyi Road Qinghutou, Tangxia, Dongguan, Guangdong Province, the PRC
Rental amount	To be determined
Deposit	Non-refundable deposit of RMB50,000
Gross area	23,976 sq.m. as factory building, 13,070 sq.m. for the two dormitories

Our Directors consider that the PLA is beneficial to us as it would be our major contingency plan if we are required to relocate the production workshop housed in Factory block E, warehouse, dormitories and canteen in case we are required to demolish the factories and ancillary facilities situated on the Remaining Land and Factory block D due to the title defects.

The terms of the PLA were agreed after arm’s length negotiation between us and the Backup Plant Landlord. While the Backup Plant Landlord agreed to grant us a right to lease the Backup Plant and the option with no prescribed time limit during which we must enter into a formal lease agreement, we were required to pay a non-refundable deposit of RMB50,000, being our consideration for the PLA, to the Backup Plant Landlord for such right to enter into a lease for a term of three years and the Backup Plant Landlord shall let us have the vacant possession of the Backup Plant within two months after entering into the formal lease agreement.

Details of the relocation plan of the relevant workshops and facilities are as follow:

(a) Rearrangement of production workshops and warehouses

- We plan to relocate all production facilities currently housed in factory blocks E to factory blocks B and C while reshuffling the existing facilities housed in factory blocks B and C to accommodate the said relocation of production workshops from factory block E, such that all production workshops will be housed in the buildings that possess relevant permits and certificates.
- Expected time requirement: 10 days
- Estimated rearrangement cost: approximately RMB69,000, which represents the transportation cost and labour cost for relocation and machinery installation

(b) Relocation of warehouses to the Backup Site

- We plan to relocate the warehouses for finished goods and plastic parts and materials currently housed in Factory blocks D, E and F to the Backup Site
- Expected time requirement: 30 days

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- Estimated relocation cost: approximately RMB220,000, which represents the transportation cost and labour cost for relocation and fixtures installation
- (c) Relocation of canteen and dormitories to the Backup Site
- We plan to relocate the canteen and dormitories currently situated on the Remaining Land to the Backup Site
 - Expected time requirement: 29 days
 - Estimated relocation cost: approximately RMB189,000, which represents the transportation cost and labour cost for relocation of furniture and canteen facilities and fixtures installations

The total estimated relocation costs would not be more than RMB500,000.

Our Group also plans to accommodate the new fabrication line (requiring approximately 200 sq.m. of space) as mentioned under the paragraph headed “Our Strategies” in this section in factory block A by rearranging the spacing in the building.

Our Directors consider that the possibility that we are required to relocate our production facilities housed in the Ancillary Properties and factory block D is remote because:

- (i) as advised by our PRC Legal Adviser, the possibility of imposition of further administrative penalty by relevant land resources bureau on our Group in respect of the use of DG Kiddieland Factory Land prior to us obtaining the land use right certificates for Production Plant Land is remote;
- (ii) in accordance with the interviews conducted with the relevant government authorities and as advised by our PRC Legal Adviser, there is no material legal impediment in obtaining the land use right certificates for the Production Plant Land and real estate ownership certificate for Factory block A, B, C and electrical power room within our Production Plants. Subject to the obtaining of the Planning Permit, Construction Permit and Completion Certificate for Factory block D, there is no material legal impediment in obtaining the real estate ownership certificate for Factory block D; and
- (iii) as advised by our PRC Legal Adviser, the Pingshan Agreement and Qinghutou Agreement under which the Ancillary Properties leased to our Group are legally valid and effective save for the part in relation to the garbage room and garage and that the term of lease exceeding 20 years may be considered invalid. Our Directors considered that the garbage room and garage not being available will not have material adverse impact on our production and operations.

As advised by our PRC Legal Adviser, the deputy director (副局長) of Tangxia Sub-bureau of Dongguan Urban Administration Bureau (東莞市城市綜合管理局塘廈分局), which is a competent authority, has confirmed that in the event that we are being evicted from the buildings in concern, there would be a period of approximately six months from the decision of demolition to actual demolition allowing us sufficient time to carefully plan the relocation plans. For the rearrangement of production

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workshops under point (a) above, we could produce more common plastic parts in advance and relocate the relevant machinery by stages in order to maintain seamless production of our workshops as a whole. For the relocation of workshops, dormitories and canteen, we also plan to relocate by stages during non-peak office hour so that our business operation is unaffected.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that the contingency plan is appropriate and sufficient to address the risks associated with the title defects of our Group's sole production site.

(D) Directors' view and indemnity

Each of the Controlling Shareholders has jointly and severally undertaken, pursuant to the Deed of Indemnity, to indemnify and keep each of our Group members fully indemnified against all penalty and/or fines imposed against any member of our Group in connection with, amongst others, any lack of capacity or authority on any owner, lessor or landlord in allowing our Group to occupy and/or use the current Production Plant Land, and the related relocation cost mentioned above (the non-compliance aspects of which are set out in the paragraph headed "Legal compliance" in this section). For details of the terms of the Deed of Indemnity, please refer to the section headed "V. Other information — 1. Estate duty, tax and other indemnities — (B) Other indemnities" in Appendix V to this prospectus.

Having considered the above rectification actions taken by our Group and the contingency plan mentioned above, our Directors are of the view that our Group has used its best endeavours to rectify the land and property title defect issues and that all the measures and rectifications actions as stated above could sufficiently avoid or minimise any potential disruption on our Group's operation and safeguard the best interests of our Group. With the indemnity undertaken by our Controlling Shareholders, our Directors are also of the view that the title defects do not pose any imminent risks to our operation and business. See the section headed "Risk Factors — We are subject to potential adverse consequences due to lack of valid real estate ownership in respect of certain properties we occupied in the PRC" of this prospectus for further details.

LICENCES, PERMITS AND APPROVALS

We are subject to various laws, rules and regulations with regard to our business operations, and are required to obtain certain licences, approvals and permits from relevant government entities to operate our business. For details, please refer to the section headed "Regulatory Overview" of this prospectus. The chart below sets forth the key licences and approvals necessary for our operations.

Type of permit/use	Holding entity	Issuing Authority	Valid period and renewal terms
The PRC custom and clearance registration certificate* (中華人民共和國海關報關單位註冊登記證書)	DG Kiddieland Industrial	Fenggang Office of Huangpu Customs* (黃埔海關駐鳳崗辦事處)	Issued on 18 August 2014/no expiry date
The pollutants emission permit of Guangdong Province* (廣東省污染物排放許可證)	DG Kiddieland Industrial	Environmental Protection Bureau of Dongguan (東莞市環境保護局)	Issued on 4 August 2016 and valid until 3 August 2020

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As confirmed by our PRC Legal Adviser, each member of our Group in the PRC had obtained the requisite governmental licences, permits and approvals and renewal in all material aspects which are necessary for its respective operations. Our Directors confirm, and our PRC Legal Adviser concur, that during the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any difficulties in renewing any of our licences, permits and approvals necessary for our operations.

EMPLOYEES

As at 30 April 2017, we had a total of 1,356 full-time employees respectively of which, 46 of them were in Hong Kong and the rest of them were stationed in the PRC. The following table sets forth the number of our full-time employees by function as at 30 April 2017:

	Number of employees
Accounting	18
Administration and human resources	108
Information technology	5
Management	26
Procurement	11
Product design and development	45
Production	1,031
Quality control	60
Sales	6
Logistics	<u>46</u>
Total	<u><u>1,356</u></u>

We aim to foster an amicable and motivating environment to enhance our employees' incentives and loyalty to our Group. Our human resources department recruit our employees through advertisement and online recruitment platform, they set out a recruitment plan at the beginning of each year after gathering information about manpower from different departments. We also provide regular training to all of our employees to improve their skills and enhance their technical knowhow as well as their knowledge on relevant product quality standards and work safety.

In accordance with the applicable laws and regulations in the PRC, we make contributions to social security scheme and housing provident fund for our employees. As advised by our PRC Legal Adviser, according to the confirmations received from the relevant authorities and to the best of their knowledge, we have been in compliance in all material respects with applicable employment laws during the Track Record Period, save for matters as disclosed in the paragraph headed "Legal compliance" in this section.

Our Directors believe that we maintain a good working relationship with our employees. We had not experienced any significant problem or dispute with our employees or suffered disruptions which has material adverse effect on our business operations during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we did not use any employment agent in recruiting our staff.

LEGAL COMPLIANCE

Save as disclosed below, we have complied with the laws and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

The following sets forth the details of our non-compliance incidents during the Track Record Period:

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
1. Failure to make full contribution to the social insurance fund	Each of DG Kiddieland Industrial and DG Kiddieland Factory (i) did not make contribution to the social insurance fund for the benefit of its employees under probation; and (ii) did not make contribution in full based on its employees' actual salaries as required under the Social Insurance Law and the relevant regulations of the PRC before May 2016.	The above non-compliances were not willful and due to our staff of human resources department was not familiar with the relevant regulatory requirement.	As advised by our PRC Legal Adviser, according to the relevant PRC laws and regulations, we may be ordered to pay the social insurance fund contribution underpaid and be subject to an overdue penalty at a daily interest rate of 0.05% on any delinquent payment. If we fail to do so within a prescribed time limit by the local social insurance authorities, we may be subject to an administrative penalty of up to three times of the amount of the delinquent payment.	<ul style="list-style-type: none"> Since May 2016, DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys have made contribution payment for the social insurance fund in full in accordance with the Social Insurance Law and the relevant regulations in the PRC, and that there is no non-compliance since May 2016. On 24 May 2016, our PRC Legal Adviser had conducted an interview with an officer of Tangxia sub-bureau of Dongguan City Social Insurance Bureau, being the competent authority; it was confirmed that (i) the bureau does not take initiative to request enterprises to pay outstanding social insurance fund; (ii) the bureau does not impose penalty on enterprises which had not fully paid the insurance fund; and (iii) no complaints were received in respect of DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys in respect of the failure to contribute to the social insurance fund. On 6 July 2016, a further interview was conducted with the abovementioned sub-bureau; it was confirmed that it is acceptable for DG Kiddieland Industrial and DG Kiddieland Factory not to make contribution to the social insurance fund for the benefit of employees under probation in the past. In addition, the sub-bureau also confirmed that, with reference to relevant laws and regulations, any complaints and/or request in respect of payment of social insurance fund from employees shall be required to be made within two years. We have obtained confirmations from Dongguan City Social Insurance Bureau on 9 September 2016, 16 December 2016 and 9 June 2017, being the competent authority according to our PRC Legal Adviser, confirming that (i) DG Kiddieland Factory does not have any overdue social insurance fund contribution from May 2013 to 31 May 2017; (ii) DG Kiddieland Industrial does not have any overdue social insurance fund contribution from August 2014 to 31 May 2017; (iii) DG Kiddieland Toys does not have any overdue social insurance fund contribution from July 2015 to 31 May 2017; and (iv) none of DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys have been subject to any administrative sanction imposed by the Dongguan City Social Insurance Bureau for violation of Social Insurance Law and the relevant regulations of the PRC.
				<ul style="list-style-type: none"> The Controlling Shareholders have also executed the Deed of Indemnity in favour of our Group whereby they will indemnify us for all claims, expenses, losses incurred by us and liabilities and damages suffered by us arising out of or in connection with the above non-compliance. On the basis that (i) DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys have made contribution payment for the social insurance fund in full since May 2016; (ii) the abovementioned interviews conducted with the relevant authorities; (iii) the abovementioned confirmation issued by Dongguan City Social Insurance Bureau; (iv) the bureau will not take initiative to request the payment of the underpaid amount if no employees' complaint has been received; (v) no complaint had been received in respect of this issue; and (vi) any complaint or request in respect of payment of social insurance fund shall be filed within two years, our PRC Legal Adviser was of the opinion that: (1) the possibility that Dongguan City Social Insurance Bureau in demanding DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys to make the relevant under-contributions to the social insurance fund is remote; (2) even if any of DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys has been demanded to make the under-contributions to the social insurance fund, if they have made the requisite payment of the under-contributions to the social insurance fund within five working days as prescribed under the applicable PRC laws and regulations, the possibility that Dongguan City Social Insurance Bureau in demanding DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys to make payment of overdue penalty is remote, and that no administrative penalty will be imposed. Accordingly, provision for our under-contributions to the social insurance fund which was payable as at 30 April 2015, 2016 and 2017 in the amount of approximately HK\$3.2 million, HK\$2.5 million and HK\$0.76 million have been made. Our management has confirmed that they will ensure that prompt payment for under-contributions to the social insurance fund within the prescribed time limit will be made if being demanded so. To avoid future non-compliance in this respect, our Group had adopted a set of policies, including appointing the human resources personnel in the PRC to continuously monitor any new laws and regulations being promulgated in relation to social insurance fund and ensure that all social insurance funds will be fully paid. Since May 2016, we have assigned a staff from the human resources department, who has completed several trainings in respect of social insurance matters, to prepare report on social insurance fund. The reports will be reviewed by the general manager of our factory in order to ensure the accuracy and completeness of the relevant schedules before submitting the payment to relevant authority. The said human resources staff is also designated to continuously monitor any new laws and regulations in this regard while the general manager of our factory will maintain close communication with the relevant government bureau to obtain latest update of the relevant requirements.

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
<p>2. Failure to register with the relevant authorities and to make full contribution to the housing provident fund</p>	<p>Each of DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys did not make housing registration at housing provident fund management centre within the prescribed time limit in accordance with the Administrative Regulations on the Housing Provident Fund and the relevant regulations; DG Kiddieland Industrial and DG Kiddieland Toys did not make contributions to the housing provident fund for the benefit of its employees based on its actual salaries before April 2016; DG Kiddieland Factory did not make contributions to the housing provident fund for the benefit of its employees based on its employee's actual salaries before May 2016.</p>	<p>The above non-compliances were not willful and due to our staff of human resources department was not familiar with the relevant regulatory requirement.</p>	<p>As advised by our PRC Legal Adviser, according to the Administrative Regulations on the Housing Provident Fund, a newly established entity shall, within 30 days of its establishment, register at housing provident fund management centre, and shall, within 20 days from the date of registration, open a housing provident fund account for its employees at an entrusted bank with the approval documents of the housing provident fund management centre. The housing provident fund management centre may order an entity to make registration and open a bank account within a time limit if an entity fails to do so, and if the entity fails to make registration and open the relevant bank account within the prescribed time limit, a fine in the amount between RMB10,000 and RMB50,000 may be imposed.</p> <p>According to the Administrative Regulations on the Housing Provident Fund, the relevant housing provident fund management centre may request an entity that fails to contribute housing provident fund in full to make payment thereof within a prescribed time limit, and, if the entity fails to do so, the housing provident fund management centre may apply to a PRC court for an order to enforce payment.</p>	<p>DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys have been registered with the housing provident fund management centre in August 2015, April 2016 and January 2010, respectively.</p> <p>DG Kiddieland Industrial and DG Kiddieland Toys have made payment for the housing provident fund in full in accordance with the Administrative Regulations on the Housing Provident Fund since April 2016, and that there is no non-compliance since then.</p> <p>DG Kiddieland Factory has made payment for the housing provident fund in full in accordance with the Administrative Regulations on the Housing Provident Fund since May 2016, and that there is no non-compliance since then.</p> <p>We have also obtained confirmation dated 12 June 2017 issued by Dongguan City Housing Provident Fund Management Centre, being the competent authority, confirming that (i) DG Kiddieland Factory has made contribution to housing provident fund for its employees since September 2015 and has no record of material breach of relevant laws and regulations; (ii) DG Kiddieland Industrial has made full contribution to housing provident fund for its employees since April 2016 and has no record of material breach of relevant laws and regulations; and (iii) DG Kiddieland Toys has made contribution to housing provident fund for its employees since January 2010 and has no record of material breach of relevant laws and regulations.</p> <p>According to our PRC Legal Adviser, in relation to the under-contributions to the housing provident fund prior to April 2016, subject to the limitation period to file complaint within 2 years, the housing provident fund management centre may demand the payment of any under-contribution, and may require the PRC people's court to issue an order for specific performance if any of DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys does not make payments within the prescribed time limit, and no penalty for under-contribution for housing provident fund will be imposed.</p> <p>The Controlling Shareholders have also executed the Deed of Indemnity in favour of our Group whereby they will indemnify us for all claims, expenses, losses incurred by us and liabilities and damages suffered by us arising out of or in connection with the above non-compliance.</p> <p>On the basis that (i) registration having been made with the housing provident fund management centre; (ii) payments were made for housing provident fund in full since May 2016; and (iii) the abovementioned confirmation issued by Dongguan City Housing Provident Fund which confirm that we have no record of material breach, and (iv) our Group has provided accommodation to our employees; and if no complaint has been filed by employees, our PRC Legal Adviser was of the opinion that the possibility of housing provident fund management centre in demanding DG Kiddieland Factory, DG Kiddieland Industrial and DG Kiddieland Toys to make payment of the underpaid housing provident fund is remote.</p> <p>Accordingly, provision for our under-contributions to the housing provident fund which was payable as at 30 April 2015, 2016 and 2017 in the amount of approximately HK\$8.2 million, HK\$7.2 million and HK\$3.3 million have been made.</p> <p>To avoid future non-compliance in this respect, our Group had adopted a set of policies, including appointing the human resources personnel in the PRC to continuously monitor any new laws and regulations being promulgated in relation to housing provident fund and ensure that all such funds will be fully paid. Since May 2016, we have assigned a staff from the human resources department, who has completed several trainings in housing provident fund matters to prepare report on monthly housing provident funds for reviews by the general manager of our factory in order to ensure the accuracy and completeness of the relevant schedules before submitting the payment to the relevant authority.</p> <p>The said human resources staff is also designated to continuously monitor any new laws and regulations in this regard while the general manager of our factory will maintain close communication with the relevant government bureau to obtain latest update of the relevant requirements.</p>

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
3. Title defects of the land which our DG Kiddieland Factory is erected	<p>During the Track Record Period and the Latest Practicable Date, we have a production and ancillary facilities located at Gao Li Industrial Area, Tangxia, Dongguan which has a GFA of 91,878.8 sq.m.. Please refer to the paragraph headed “Our properties — Properties that we occupied in the PRC” in this section in this prospectus for further details.</p> <p>As advised by our PRC Legal Adviser, the agreement for the use of land entered into between our Group and Dongguan City Tangxia Town Economic Development Company dated 1 December 1997 as supplemented by a supplemental agreement dated 29 September 2013 was invalid. For details, please refer to the paragraph headed “Our Properties — Properties that we occupied in the PRC — Background of the properties occupied by us in the PRC and relevant title defects” in this section in this prospectus.</p>	<p>The non-compliance is mainly caused by (i) our management team at the relevant time being not familiar with the relevant regulatory requirements; (ii) inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations; and (iii) the absence of any investigation, penalty or request for remedial action from the local authorities, which was considered by our management team as being an implied consent to use such land.</p>	<p>As advised by our PRC Legal Adviser, land administrative authorities of the PRC government at or above county level may order rectification of land use within a prescribed time limit, confiscate the proceeds concerned and impose a fine in respect of any leasing, transferring or renting the use rights of land collectively owned by peasants for non-agricultural construction uses. On 5 September 2016, the Ministry of Land and Resources of Dongguan City had fined DG Kiddieland Industrial for RMB918,788 and such fine had been fully paid.</p>	<p>We have entered into the Pingshan Agreement and Qinghutou Agreement, respectively, pursuant to which we agreed that (i) in consideration of DG Kiddieland Industrial making supplemental application to obtain the land use right certificates of the portions (with site area of 23,503.3 sq.m. and 14,112.7 sq.m., respectively) of Production Plant Land owned by each of the parties and the real estate ownership certificates in respect of the buildings erected thereon, the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; (ii) the rights and obligations of the buildings erected on the Remaining Land owned by Pingshan Economic Cooperative and Qinghutou Economic Union, respectively, shall be enjoyed and borne by the respective parties; and (iii) buildings erected on the Remaining Land owned by Pingshan Economic Cooperative and Qinghutou Economic Union shall be leased to DG Kiddieland Industrial for use at nil consideration till 30 November 2047, and DG Kiddieland Industrial shall bear the utilities charges in respect of the use of such buildings. Among which, the term of Qinghutou lease is 20 years and thereafter shall be automatically renewed to 30 November 2047.</p> <p>The deputy director (副局長) of Tangxia sub-bureau of Dongguan City State-owned Land Resources Bureau (東莞市國土資源局塘廈分局), which is a competent authority, confirmed in an interview on 5 January 2017 with our PRC legal adviser that as DG Kiddieland Industrial has (i) returned the DG Kiddieland Factory Land to Qinghutou Economic Union and Pingshan Economic Cooperative, and (ii) paid the fine imposed on the Decision on Administrative Penalty, no further administrative penalty will be imposed by the bureau on DG Kiddieland Industrial.</p> <p>On 24 January 2017, the deputy director (副局長) of Tangxia sub-bureau of Dongguan City State-owned Land Resources Bureau (東莞市國土資源局塘廈分局), which is a competent authority, confirmed in an interview with our PRC Legal Adviser that (i) all documents required to be submitted to the Dongguan City State-owned Land Resources Bureau in order to obtain the land use right certificates for the Production Plant Land have been prepared and the sub-bureau will submit the same to Dongguan City State-owned Land Resources Bureau after a public announcement is made in the local villagers community; and (ii) all remaining steps to be completed in order to obtain the land use rights certificate for the Production Plant Land are procedural and there is no practical impediment for our Group to obtain the land use right certificates for the Production Plant Land.</p> <p>Please refer to the paragraphs headed “Our Properties — Properties that we occupied in the PRC — Background of the properties occupied by us in the PRC and relevant title defects” and “Our Properties — Properties that we occupied in the PRC — Contingency Plans” of this section for further details of our rectification actions and contingency plans.</p> <p>The Controlling Shareholders have also executed the Deed of Indemnity in favour of our Group whereby they will indemnify us for all claims, expenses, losses incurred by us and liabilities and damages suffered by us arising out of or in connection with the above non-compliance.</p> <p>Based on (i) the interview conducted with the relevant government authorities mentioned above; (ii) the validity of the Pingshan Agreement and Qinghutou Agreement; and (iii) there is no material legal impediment in obtaining the land use rights certificate in respect of the land, our PRC Legal Adviser is of the view that the possibility of imposition of further administrative penalty (including a demolition order) on our Group by relevant land resources bureau in respect of the unlawful use of the Production Plant Land prior to us obtaining the land use right certificates for the land is remote.</p>

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
<p>4. Failure to obtain necessary permits prior to commencing construction of some of our properties</p>	<p>We have not (i) obtained the Planning Permit and the Construction Permit prior to commencing the construction for some of the properties; and/or (ii) conduct inspection upon completion of the construction. Please refer to the paragraph headed "Our Properties — Rectification actions".</p>	<p>The non-compliance is mainly caused by (i) our management team at the relevant time being not familiar with the relevant regulatory requirements; (ii) inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations; and (iii) the absence of any investigation, penalty or request for remedial action from the local authorities, which was considered by our management team as being an implied consent to use such properties.</p>	<p>As advised by our PRC Legal Adviser, according to the Urban and Rural Planning Law of the PRC, if a construction project proceeds without obtaining the Planning Permit or in violation of the provisions of the Planning Permit, Urban and Rural Planning authorities at or above county level may order termination of the construction project. For construction project where measures can be taken to eliminate its impact on urban and rural planning, the authorities may order that such measures be taken within a prescribed time limit and impose a fine in the amount between 5% to 10% of the cost of the construction project. For construction project where no measures can be taken to eliminate its impact on rural and urban planning, the authorities may order that the relevant structure be demolished, or, if the relevant structure cannot be demolished, confiscate the relevant structure or income arising therefrom and impose a fine in the amount of not more than 10% of the costs of the construction project.</p> <p>As advised by our PRC Legal Adviser, DG Kiddieland Industrial may face a maximum penalty of RMB0.7 million, being 6% of the cost of the construction project for obtaining the real estate ownership certificate and such potential penalty had been fully provided for in our financial results during the Track Record Period.</p>	<p>Our Group is in the process of obtaining the land use right certificates for the Production Plant Land thus the real estate ownership certificates for the Production Plants thereafter.</p> <p>On 6 July 2016, the director (局長) of Dongguan City, Tangxia Town Building Construction and Planning Bureau (东莞市塘厦镇住房和城乡建设局), which is a competent authority, confirmed in an interview with our PRC legal adviser that subject to our Group obtaining the land use rights certificate for the Production Plant Land, there is no legal impediment in obtaining the real estate ownership certificates for the Production Plants. On such basis, our PRC legal adviser advised that (i) our Group shall obtain the Planning Permit, Construction Permit and Completion Certificate for Factory block D before obtaining the real estate ownership certificate for factory block D. Pursuant to the Regulations for Supplemental Application for Real Estate Ownership Certificates, the Office of Application of the Real Estate Ownership Certificates of Established Properties of Tangxia Town (塘厦镇已建房屋辅助房地產權手續工作辦公室) shall represent DG Kiddieland Industrial to make supplemental applications for the said permits and certificate to the relevant departments of Dongguan City. The relevant departments of Dongguan City are required to issue the permits and certificates within 10 working days after the application documents are accepted; (ii) except for the fact that additional time and procedure involved in obtaining the real estate ownership certificate for factory block D, given the Production Plans (including factory block D) fulfils the requirements for the supplemental application according to the Regulations for Supplemental Application for Real Estate Ownership Certificates, there is no material legal impediment in obtaining The Planning Permit, Construction Permit and Completion Certificate for factory block D as well as the real estate ownership certificates for the Production Plants.</p>
		<p>In order to prevent future occurrence and/or recurrence of any non-compliance incidents, we intend to adopt or have adopted a set of internal control measures. For details, please refer to the paragraph headed "Business — Internal Control Procedures" of this section in this prospectus.</p>	<p>As our Factory block D does not possess valid Planning Permit, we have, in the event that we are evicted from such premises, identified a suitable replacement premises and formulated a relocation plan to relocate the warehouse. For details of such relocation, please refer to the paragraph headed "Our properties — Properties that we occupied in the PRC — Background of the properties occupied by us in the PRC and relevant title defects — Contingency plans" in this section in this prospectus.</p>	
		<p>As advised by our PRC Legal Adviser, according to the Construction Law of the PRC and the Regulation on the Quality Management of Construction Projects of the PRC, (i) construction projects that are commenced without Construction Permit or prior to its commencement report having been approved shall be rectified. A construction project commenced without fulfilling its commencement conditions shall be terminated and a fine in the amount between 1% to 2% of the costs of the construction project may be imposed; and (ii) Construction unit who put the construction in use without organization of a completion-based check shall be rectified and a fine in the amount between 2% to 4% of the construction project contract price may be imposed.</p>	<p>The Controlling Shareholders have also executed the Deed of Indemnity in favour of our Group whereby they will indemnify us for all penalty and/or fines imposed against member of our Group in connection with, amongst others, any lack of capacity or authority on any owner, lessor or landlord in allowing our Group to occupy and/or use the Production Plant Land, and the related relocation cost.</p>	
		<p>Factory blocks D, E and F, Staff dormitory Block E, the garbage room and the garage, all constructed by the DG Kiddieland Factory had not obtained the Planning Permit and is subject to potential risk of demolition from relevant authorities.</p>	<p>Based on (i) the interview conducted with the Bureau; (ii) the Pingshan Agreement and Qinghutou Agreement; and (iii) reviewing all relevant laws and regulations, our PRC Legal Adviser are of the view that, (i) the risk of the relevant construction being demolished is low; and (ii) if our Group is subject to any penalty in respect of the non-compliance, Pingshan Economic Cooperation and Qinghutou Economic Union shall borne the penalty in respect of buildings erected on the Remaining Land respectively according to the Pingshan Agreement and Qinghutou Agreement.</p>	

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
5. Claim in respect of non-compliance with customs filing against an ex-employee of our Group	<p>— An ex-employee of our Group who was responsible for customs filing was investigated and charged in November 2009 for illegal importation of plastic raw materials without complying with relevant customs declaration requirements of the PRC. The claim involved an unpaid import duty and value-added tax of approximately RMB280,000. The Anti-smuggling Bureau of Fenggang office of Huangpu Customs alleged that DG Kiddieland Factory was involved in a minor role in such illegal activities carried out by the ex-employee, since the amount of unpaid taxes in relation to DG Kiddieland Factory's involvement fell below criminal prosecution limit, an administrative investigation was initiated against DG Kiddieland Factory in December 2016.</p>	<p>The senior management team of our Company was not aware of and did not authorise the illegal activities carried out by the ex-employee.</p>	<p>— As at the Latest Practicable Date, no administrative sanction notice has been issued to and no administrative penalty has been imposed on DG Kiddieland Factory. As advised by our PRC Legal Adviser, the maximum amount of fine payable by DG Kiddieland Factory, if it is found guilty of the illegal activities, is up to RMB330,000 and such potential penalty had been fully provided for in our financial results during the Track Record Period.</p>	<p>To avoid recurrence of the incident, our Group has tightened control throughout the entire process of customs administration. A supervisor from our accounts department at the factory in the PRC has been appointed to monitor the relevant contracts and an officer in Hong Kong would double check the relevant to avoid recurrence of the incident. Since January 2010, the team leader from customs contracting team, who had passed the examination in relation to customs filing, has been appointed to monitor and manage the customs related matters, and the team is supervised by supervisor of the customs contracting team, who has 15 years of experience in customs contracts management, is responsible for reviewing and overseeing the customs related matters.</p>
6. Issues in relation to bonded goods	<p>— An inspection was conducted on DG Kiddieland Industrial by Taiping Customs Department, a subordinate department under Huangpu Customs, on 20 October 2016, and it was alleged that there was a shortfall of 2,175,060 pieces of circuit boards in bond on the date of such inspection.</p>	<p>There are discrepancies between the estimation of the number of circuit boards needed when preparing the sales budget and the actual number required as per the customers' purchase orders which consequently leads to a shortfall of circuit boards in bond compared to the customs record</p>	<p>— As advised by our PRC Legal Adviser, according to the relevant PRC laws and regulations on customs administrative punishment, for any shortfall or keeping inaccurate records of goods that are monitored by the custom authorities, (i) a penalty representing 5% to 30% of the price of the goods will be imposed; and (ii) any profits made illegally therefrom shall be confiscated.</p> <p>— As confirmed by our Directors, the aggregate price of the shortfall of circuit board in bonds amounted to approximately RMB653,000.</p> <p>— As at the Latest Practicable Date, no decision or judgment was given from the relevant custom authorities.</p> <p>— Please refer to incident 7 below in relation to the potential maximum penalty regarding this matter.</p>	<p>Since November 2016, we require our officer, who is responsible for the import and export matters, to prepare further breakdowns of raw materials needed in order to prepare a best estimation of quantity of raw materials required with reference to historical data and sales forecast under the supervision of the supervisor, who had ten years of experience in handling customs contracts, from the customs contracting department. Our executive Director, Mr. Kenneth Lo, is responsible to closely monitor the estimation prepared by the customs contracting department and the actual usage and would make adjustment or take ratification actions if any material discrepancies noted. Our Group would also strengthen the knowledge and training of relevant laws and regulations and implement a comprehensive control system to avoid recurrence of the incident. The team leader from customs contracting team has also been assigned to update the team with the necessary laws and regulations and maintain close relationship with the relevant government authority.</p> <p>There is no non-compliance since the above-mentioned rectification.</p>

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
7. Delegation of certain manufacturing process to other factories without making necessary filings	<p>— An inspection was conducted on Kiddieland Industrial by Taiping Customs Department, a subordinate department under Huangpu Customs, on 20 October 2016 and it was alleged that DG Kiddieland Industrial was involved in the delegation of certain manufacturing process to other factories without fulfilling the archival filing formalities to the relevant custom authorities for the period of 22 August 2014 to 20 October 2016.</p>	<p>The relevant personnel was not aware with the regulations in respect of delegation of manufacturing process to other factories.</p>	<p>— As advised by our PRC Legal Adviser, according to the relevant PRC custom laws and regulations, archival filing formalities to the custom authority is required if a processing trade enterprise engages in outward processing business. In addition, if an enterprise operates such businesses as the transportation, storage, processing, consignment sale, exhibition of bonded goods that are monitored by the custom authorities and failing to handle such formalities as the receiving and keeping, delivery, carrying forward, and cancelling after verification as required, or failing to go through the formalities at the custom authorities as required for suspension, extension, alteration or transferring the relevant contracts, (i) a penalty representing 5% to 30% of the price of the relevant material will be imposed; and (ii) any profits made illegally therefrom shall be confiscated.</p>	<p>— As confirmed by the Directors, DG Kiddieland Industrial has conducted the archival filing formalities for the relevant processing arrangement since November 2016 and that all relevant materials were returned from the relevant factories. The subcontracting arrangement would be recorded properly and monitored by our internal control staff. Our Group would also strengthen the knowledge and training of relevant laws and regulations and implement a comprehensive control system to ensure no recurrence of the incident. Since November 2016, the head of our production team, who has ten years of experience in production planning, has been appointed to handle the forecast outward processing units based on the sales forecast and production plan, his work would be checked and monitored by the officer and supervisor from the customs contracting team. The team leader from customs contracting team has also been appointed to register the outward processing contracts online upon approval by the supervisor of the customs contracting team and to update the team with the necessary laws and regulations and maintain close relationship with the relevant government authority.</p>
	<p>— As confirmed by our Directors, the aggregate sum of the materials concerned amounted to approximately HK\$16,882,000.</p>			<p>There is no non-compliance since the above-mentioned rectification.</p>
			<p>— As at the Latest Practicable Date, no decision or judgment was given from the relevant custom authorities.</p>	<p>We have obtained confirmations from Fenggang office of Huangpu Customs on 22 December 2016 and 9 June 2017 respectively, being the competent authority according to our PRC Legal Adviser, confirming that, during 20 January 2014 to 31 May 2017, DG Kiddieland Industrial has no record of smuggling activities which breach relevant laws and regulations in their jurisdiction.</p>
			<p>— On 25 April 2017, the Anti-smuggling Bureau of Fenggang office of Huangpu Customs, the competent department in relation to this matter as advised by our PRC Legal Adviser, confirmed in an interview with the PRC Legal Adviser that for the above-mentioned non-compliance no.6-7, DG Kiddieland Industrial have paid a security deposit of RMB300,000 on 22 March 2017 (the “Security Deposit”), which is the approximate amount of taxes and penalties that DG Kiddieland Industrial have to pay eventually for such non-compliance. Thus, the PRC Legal Adviser is of the opinion that it is likely that DG Kiddieland Industrial has to pay taxes and penalties of approximately RMB300,000 for the above-mentioned non-compliance no.6-7, which can be deducted from the Security Deposit. Such potential penalty had been fully provided for in the financial results of our Group during the Track Record Period.</p>	

Non-compliance incidents	Particulars of non-compliance incidents	Reason(s) for non-compliance	Estimated/actual fine/penalty	Remedial action(s)
8. We discharge effluent without complying with the laws and PRC regulations of the	<p>An inspection was conducted on DG Kiddieland Factory by the Dongguan Environmental Protection Bureau (the "Environmental Bureau") on 21 May 2015, and it was discovered that (i) DG Kiddieland Factory have set up a sewage pipe connecting its waste water collection pool to a rain water pipe; and (ii) there was leakage of sewage water through a crack on the ground.</p> <p>— On 22 May 2015, our Group had sealed both ends of the sewage pipe and had sealed the crack on the ground with cement, and it was confirmed by the official of the environmental protection bureau upon inspection on the same day.</p> <p>— On 11 August 2015, DG Kiddieland Factory received a notice for an administrative penalty in the sum of RMB60,000 from the Dongguan Environmental Protection Bureau in respect of the above violations (the "Administrative Notice").</p> <p>— The incident had also been investigated by Dongguan Public Security Bureau but DG Kiddieland Factory had subsequently received a notice from bureau dated 10 March 2017 confirming that the case had been dismissed.</p>	<p>The non-compliance was inadvertent. Our workers and management were not aware of a crack on the ground until the inspection was conducted by the Dongguan Environmental Protection Bureau.</p>	<p>According to our PRC Legal Adviser, since Dongguan Public Security Bureau has issued a notice of case dismissal, the case will be returned to the Dongguan Environmental Bureau as confirmed during an interview with the Environmental Bureau on 14 July 2016 that (i) the administrative sanction procedures will be resumed if the Dongguan Public Security Bureau considers that such incident does not constitute a crime; (ii) the administrative penalty to be imposed against DG Factory will not exceed the amount of RMB60,000 as set out in the Administrative Notice. Our PRC Legal Adviser further advised that the Administrative Notice is just a preliminary notice of the relevant administrative penalty, rather than any legally enforceable administrative decision, and that should be followed by a decision notice to notify the actual payment of the penalty. As at the Latest Practicable Date, DG Kiddieland Factory received a written decision of administrative penalty imposing a penalty of RMB60,000 and such sum was settled by our Group on 24 August 2017.</p>	<p>— The sewage pipe and the cracks have been sealed on 22 May 2015.</p> <p>— Our Group will perform regular repair and improvement works on the water drainage system. A professional environmental expert consultation team has been hired since the middle of 2015 to handle issues relating to the polluted water/air outflow and collection. The expert team is also responsible for handling all requirements issued by the Dongguan Environmental Protection Bureau. Meanwhile, the management of DG Kiddieland Factory is working closely with the expert team in making all necessary enhancements in regards of all environmental issues. Since March 2015, we have also assigned our production safety manager to oversee and work closely with the external expert team in making all necessary enhancement in respect of environmental matters. The production safety manager has received several training in environmental protection and relevant environmental laws.</p> <p>There is no non-compliance since the above-mentioned rectification.</p>

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LEGAL PROCEEDINGS

Our Directors confirm that, to their best knowledge after making all reasonable enquiries, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our operations, financial condition, operating results or reputation during the Track Record Period and up to the Latest Practicable Date.

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S. and other jurisdictions or international organisations, including the E.U., Australia and the United Nations, have implemented International Sanctions targeting certain activities in or involving Sanctioned Countries and/or certain activities with Sanctioned Persons.

Sales to Sanctioned Countries

We generated a certain amount of our revenue from the sale of our products to customers in certain Sanctioned Countries, namely, Russia, Belarus, Egypt, Lebanon, Venezuela, Serbia and Ukraine (the “**Affected Countries**”), and we still carry out such business activities in connection with these Affected Countries. Such Affected Countries are subject to sanctions with respect to specific sanctionable activities or Sanctioned Persons but not comprehensive sanctions imposed by the U.S., the European Union, the United Nations or Australia. The amount of revenue generated from sales to these Affected Countries for FY2015, FY2016 and FY2017 represented 5.9%, 3.0% and 3.7% of our total revenue for the same periods, respectively. As advised by our legal advisers as to International Sanctions laws, based on the information provided to them, our sales to customers in the Affected Countries during the Track Record Period give rise to a very low risk of penalties or other measures being imposed under the International Sanctions on our Group, our Shareholders, the Stock Exchange, HKSCC or HKSCC Nominees, the Listing Committee or any other person involved in the Global Offering, on the basis that the relevant International Sanctions do not prohibit the export of toys in general and on the basis that we do not deal with any customers who are sanctioned persons.

In relation to our sales to customers in the Affected Countries during the Track Record Period, we have not been notified that any International Sanctions will be imposed on us. None of the customers is a sanctioned person. Such sales do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

Our Directors do not expect any significant increase or decrease in our Group’s sales to Sanctioned Countries upon Listing.

As advised by our PRC Legal Adviser, the goods exported by our Group to customers in the Sanctioned Countries fall outside the scope of the goods prohibited for export by the PRC government authorities under the relevant PRC laws and regulations. Our PRC Legal Adviser advised that our Group has not violated any PRC laws or regulations in relation to the PRC export bans.

Our undertakings

We undertake to the Stock Exchange that (i) the net proceeds of the Global Offering and any other funds raised through the Stock Exchange would not be applied, directly or indirectly, to finance or facilitate any projects or businesses in the Sanctioned Countries to the extent such use will be sanctionable or pay any damages for terminating or transferring the contracts in the Sanctioned Countries; and (ii) we would disclose on the Exchange's and our own websites if we believed that the transactions we entered into in the Sanctioned Countries would put ourselves or our investors and shareholders at risks of being sanctioned, and in the annual reports/interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and our business intention relating to the Sanctioned Countries.

INTERNAL CONTROL PROCEDURES

Internal control measures relating to our sales to Sanctioned Countries

As we intend to continue to sell our products to customers in the Affected Countries after Listing, and we may determine to establish new business relationships with other sanctioned countries, we have adopted enhanced measures to facilitate us to identify, monitor and mitigate any material risk relating to International Sanctions laws. The following measures has been adopted as at the Latest Practicable Date:

- We have appointed Ms. Suzanne Lo (one of our executive Directors) as the risk management officer. Her responsibilities include, monitoring our exposure to International Sanctions risks and our implementation of the related risk management procedures. For the credentials and relevant experience of Ms. Suzanne Lo, see the section headed "Directors and senior management" in this prospectus.
- We will evaluate the International Sanctions risks prior to determining whether we should embark on any business opportunities in a Sanctioned Country. According to our internal control procedures, the risk management officer needs to review and approve all relevant business transaction documentation connected with Sanctioned Countries. In particular, the risk management officer will review the information (such as identity and nature of business) relating to the counterparty to the contract along with the draft business transaction documentation. The risk management officer will check the counterparty against the various lists of Sanctioned Countries and Sanctioned Persons and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a Sanctioned Person. If any potential sanction risk is identified, we will seek advice from an external international legal counsel with the necessary expertise and experience in International Sanctions.
- According to our new customer evaluation policy, upon receipt of interests from prospective customer, our sales team would perform routine check on various background information of the customer as well as verify if the customers are Sanctioned Persons or come from Sanctioned Countries. Additional attention would be paid to new customers from Sanctioned Countries, and we would not accept new customers unless we have conducted proper risk assessment in accordance with the procedures discussed above.

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- In order to ensure our compliance with those undertakings to the Stock Exchange, our risk management officer will continuously monitor the use of proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Countries to the extent such use is sanctionable.
- If necessary, external international legal counsel will provide training programmes relating to the International Sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential International Sanctions risks in our daily operations. Our external international legal counsel will provide current list of Sanctioned Countries and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our operations.

Although we will continue to sell our products to customers in Affected Countries after Listing, our Directors are of the view, and the Sole Sponsor concurs subject to the full implementation and enforcement of these measures, that these internal control measures will provide a reasonably adequate and effective framework to assist us in identifying, monitoring and mitigating any material risk relating to the International Sanctions.

Other internal control measures to improve our overall corporate governance

In order to continuously enhance our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

- Our Directors and senior management have attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal advisers prior to Listing. We will continue to arrange various trainings to be provided by the legal adviser to be engaged by us from time to time and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations;
- We will provide our senior management and employees with policies, training and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time, in particular, the calculation of the social insurance and housing provident funds under the applicable PRC laws and regulations.
- We have appointed Mr. Cheung Ka Cheong as our company secretary who will be responsible for the company secretarial matters of our Group and assist our Directors in implementation of and ongoing compliance with internal control measures our Group. Please refer to the section headed “Business — Directors and senior management” in this prospectus for further detailed biographical information of Mr. Cheung.
- We have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules issues and other applicable securities laws and regulations in Hong Kong.
- We have also established an audit committee comprising three independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness

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of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors.

Having considered the above and in light of the following:

- (i) with the occurrence of these incidents, our Directors are minded and alert to any issues that might result in any non-compliance;
- (ii) since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, our Directors confirmed that our Group had not been involved in any breach of applicable rules and regulations other than the non-compliance incidents as disclosed above; and
- (iii) our Directors are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations,

our Directors are of the view, and the Sole Sponsor concurs, that our Company has taken reasonable steps to establish internal control system and procedures to enhance the control environment at both working and monitoring levels, and the enhanced internal control measures adopted by our Group in responses to the non-compliance incidents during the Track Record Period are adequate and effective.

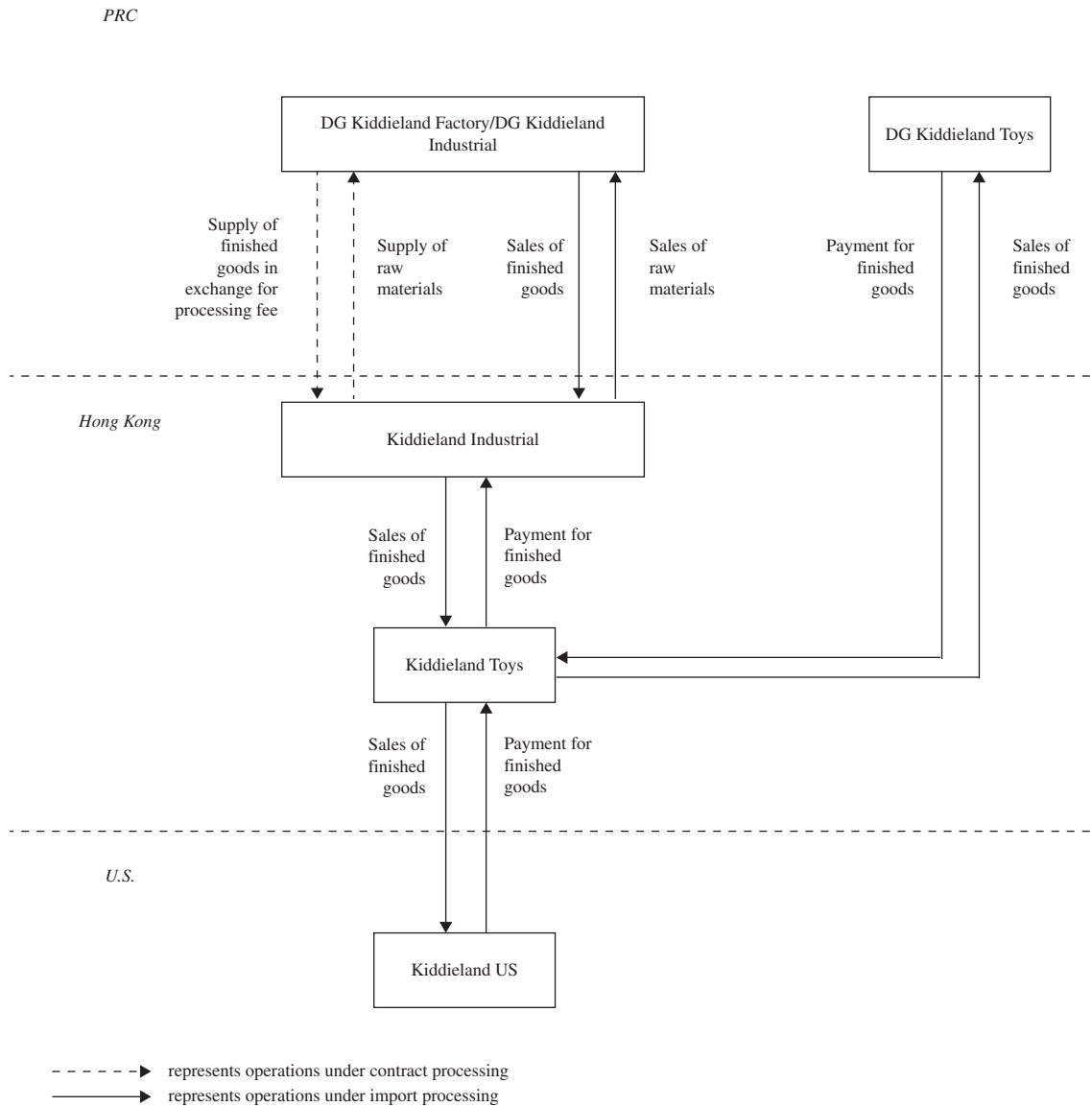
Furthermore, considering that (i) the non-compliance incidents were neither intentional nor involving fraud or dishonesty of our Directors, but were mainly due to inadvertent oversight or insufficient and inaccurate understanding of the relevant laws and regulations; (ii) our Directors have adopted reasonable measures including seeking advises from our Group's legal advisor when such non-compliance incidents were identified; and (iii) our Directors have procured our Group to adopt rectification measures and enhanced internal control procedures with a view to prevent re-occurrence of such non-compliance incidents, our Directors are of the view, and the Sole Sponsor concurs, that the non-compliance incidents would not adversely affect their competency under Rules 3.08 and 3.09 of the Listing Rules.

TRANSFER PRICING ARRANGEMENT

During the Track Record Period, our operations were mainly in Hong Kong, the PRC and U.S., and we had transactions with customers worldwide. Our DG Kiddieland Factory and DG Kiddieland Industrial (the "**PRC Factory**") were responsible for manufacturing of our toy products. Kiddieland Industrial was responsible for our toys development and production management. Kiddieland Toys was responsible for the sales and marketing of our toys products. Kiddieland US was responsible for our sales to a number of our major customers in the U.S. who requested to trade on POE terms. The

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following diagram illustrates the business and logistic flow of our products within our Group during the Track Record Period:



As illustrated above, the following transactions were regarded as our intra-group transactions relating to our transfer pricing arrangement during the Track Record Period:

- Supply of raw materials and payment of processing fee by Kiddieland Industrial to DG Kiddieland Industrial in exchange for finished goods
- Sales of raw materials by Kiddieland Industrial to DG Kiddieland Industrial, and sales of finished goods by DG Kiddieland Industrial to Kiddieland Industrial
- Sales of finished goods by Kiddieland Toys to DG Kiddieland Toys
- Sales of finished goods by Kiddieland Toys to Kiddieland US

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We have adopted transfer pricing arrangement amongst our group companies to regulate intra-group transactions and have taken various measures to ensure our compliance with relevant transfer pricing laws and regulations in jurisdictions where we operate, including: (i) monitoring of implementation of internal control policy on tax-related matters; (ii) identification of updates on transfer pricing laws and regulations and assessment of related risks on our Group; and (iii) regular review on transfer pricing policy and exposure; and (iv) designated our finance director to regularly monitor our pricing policy of intra-group transactions to ensure such transactions satisfied with the arm's length principle.

The selling prices of our toy products to third party customers were determined based on a number of factors, including market demand, retail price of similar products in the market, cost of raw materials, labour costs, product brands, product life cycle, consumption behaviour as well as business relationship with our customers. We adopted arm's length standard to determine the selling prices of the intra-group transactions amongst DG Kiddieland Industrial, DG Kiddieland Toys, Kiddieland Industrial, Kiddieland Toys and Kiddieland US after taken into account their respective responsibilities for driving the economic activity, such as manufacturing, product development, sales and distribution, etc. to apportion reasonable profits amongst these entities according to their roles and functions within our Group and the costs involved. We have engaged RSM Tax Advisory (Hong Kong) Limited ("**Tax Consultant**"), to perform a transfer pricing study to review and evaluate our Group's transfer pricing arrangement in relation to intra-group transactions between DG Kiddieland Industrial, DG Kiddieland Toys, Kiddieland Industrial, Kiddieland Toys and Kiddieland US during the Track Record Period. Our Tax Consultant has performed a function and risk analysis on our relevant group companies involved and applied the transactional net margin method to perform benchmarking studies to test whether the intra-group transactions were conducted at arm's length basis following the relevant transfer pricing laws and regulations in Hong Kong, PRC and US. Based on the Tax Consultant's transfer pricing study on our relevant intra-group transactions during the Track Record Period (as illustrated in the diagram above), the Tax Consultant found that the profit level of our relevant group companies were comparable to those of the industry peers engaged in similar business with similar functions and risks and therefore considered that the relevant intra-group transactions satisfied the arm's length principle under the Hong Kong, PRC and US transfer pricing requirements. In addition, our Tax Consultant noted our Group's transfer pricing documentation was prepared in accordance with the relevant transfer pricing laws and regulations and our Group's transfer pricing arrangements have not been challenged or investigated by any relevant tax authority. As the transfer pricing study concluded that the intra-group transactions were conducted at arm's length basis and our Group has prepared the related transfer pricing documentation in accordance with the relevant transfer pricing laws and regulations, the Tax Consultant considered that our Group was in full compliance with the relevant transfer pricing laws and regulations in Hong Kong, PRC and US and the probability of relevant tax authorities imposing transfer pricing adjustments is low.

Our management had been and will continue to closely monitor our Group's transfer pricing arrangement including reviewing the reasonableness of the pricing policy of our intra-group transactions from time to time. However, similar to other matters relating to tax, we cannot assure that our transfer pricing arrangement will not be subject to review and possible challenge by any relevant tax authorities in future, even though we believe we have reasonable grounds to defend ourselves against such possible challenge. See the section headed "Risk factors — Any change in our tax treatment could reduce our profitability" in this prospectus for further details.

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Based on the above and taking into consideration the relevant laws and regulations relating to transfer pricing as set out in relevant section under “Regulatory overview”, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has observed the transfer pricing laws and regulations of the relevant jurisdiction and we were not aware of any inquiries, audit or investigation by any tax authority in Hong Kong, the PRC and U.S. with respect to our intra-group transactions.

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OUR CONTROLLING SHAREHOLDERS

KLH Capital is a company incorporated in the BVI with limited liability and owned as to 25% by Mr. Kenneth Lo, 25% by Ms. Suzanne Lo, 25% by Ms. Sylvia Lo, 12.5% by Mr. Victor Lo and 12.5% by Ms. Esther Leung. Immediately upon completion of the Global Offering and the Capitalisation Issue, KLH Capital will hold 75% of the total issued share capital of our Company (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued pursuant to the options which may be granted under the Share Option Scheme). Ms. Esther Leung is the spouse of Mr. Victor Lo, while Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo are children of Mr. Victor Lo and Ms. Esther Leung, and all of them are also directors of KLH Capital. In view of the above relationship between Mr. Victor Lo, Ms. Esther Leung, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo and KLH Capital, they will be considered as the controlling shareholders of our Company within the meaning of the Listing Rules upon Listing.

KLH Capital is an investment holding company and does not carry on any business activity other than the holding of interests in our Company. Our Controlling Shareholders confirm that they and their respective associates do not have any interest in a business apart from our Group's business which competes or is likely to compete, either directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

For the purpose of the Listing, our Controlling Shareholders had on 31 August 2017 entered into the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for our subsidiaries), pursuant to which each of our Controlling Shareholders irrevocably and unconditionally undertakes and covenants with our Company for ourselves and as trustee for our subsidiaries from time to time that with effect from the Listing Date and for as long as our Shares remain listed on the Stock Exchange and he/she/it, individually or collectively with any other Controlling Shareholder(s) is, directly or indirectly, entitled to exercise or control the exercise of 30% or more of our Shares in issue, or is otherwise regarded as a controlling shareholder (as defined under the Listing Rules from time to time) of our Company, he/she/it shall not, and shall procure that none of his/her/its close associates (for the purpose of the Deed of Non-Competition, shall have the same meaning as defined under Rule 1.01 of the Listing Rules but excluding our Group) shall:

- (a) directly or indirectly (other than through our Group), either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among others, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise) any right or interest in or render any services to or otherwise be involved in any business directly or indirectly in competition with, or likely to be in competition with, the existing business activity of our Group and any business activities undertaken by our Group from time to time (the "**Restricted Business**") except for the holding of not more than 5% shareholding interests (individually or with any other Controlling Shareholder(s) or their associate(s) collectively) in any listed company in Hong Kong (provided that our Controlling Shareholders and/or their close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

should exist at least another shareholder of that company (together, where appropriate, with its associates) whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and/or their close associates together hold);

- (b) take any direct or indirect action which constitutes an interference with or a disruption to the Restricted Business including, but not limited to, the solicitation of, interference with or enticing away our Group's customers, suppliers, sub-consultants, sub-contractors, management, technical staff or employees; or
- (c) exploit his/her/its knowledge or information obtained from or pertaining to the business of our Group in his/her/its capacity as a controlling shareholder (as defined under the Listing Rules from time to time) of our Company to compete, directly or indirectly, with the Restricted Business.

In addition, each of our Controlling Shareholders irrevocably and unconditionally undertakes and covenants that if any business opportunity relating to any of the products and/or services of our Group or the Restricted Business (the "**Business Opportunity**") is made available to him/her/it or to any of his/her/its close associates, he/she/it shall direct or procure the relevant close associate(s) to direct such Business Opportunity to our Company together with such required information to enable our Company to evaluate the merits of the Business Opportunity; and the relevant Controlling Shareholder shall provide, or procure the relevant close associate(s) to provide, our Company or the relevant member of our Group with such assistance to secure the Business Opportunity as our Company or the relevant member of our Group may reasonably require.

Each of our Controlling Shareholders further irrevocably and unconditionally undertakes that he/she/it shall not, and shall procure that none of his/her/its close associates shall, pursue such Business Opportunity unless our Company decides not to pursue such Business Opportunity. Any decision of our Company as to whether to pursue the Business Opportunity shall have to be approved by our independent non-executive Directors. Our Group shall not be required to pay any fees to our Controlling Shareholders and/or the relevant close associate(s) in relation to the direction of such Business Opportunity.

Each of our Controlling Shareholders also represents and warrants that as at the date of the Deed of Non-Competition, other than his/her/its interests in our Group, neither he/she/it nor any of his/her/its close associates is carrying on or engaging in, directly or indirectly, the Restricted Business or is otherwise engaged in any business that competes or may compete with those of our Group.

Each of our Controlling Shareholders further irrevocably and unconditionally undertakes that he/she/it shall:

- (i) provide to our Company all information necessary for the enforcement of the undertakings or covenants in the Deed of Non-Competition;
- (ii) provide an annual confirmation to our Company confirming that he/she/it and his/her/its close associates have not breached the terms of the undertakings contained in the Deed of Non-Competition;

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- (iii) provide all information necessary for the annual review by our independent non-executive Directors of his/her/its compliance with the terms of the Deed of Non-Competition and the enforcement of the Deed of Non-Competition;
- (iv) abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests; and
- (v) in the case where the Controlling Shareholder is also a Director, together with other conflicting Directors (if any), abstain from voting and not be counted as quorum of any Board meetings for consideration and approval of any matters referred to in the Deed of Non-Competition which have or may give rise to actual or potential conflict of interests.

Our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertakings in the Deed of Non-Competition and we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the undertakings (for example, the exercise or non-exercise of options or first rights of refusal in respect of a Business Opportunity) either in our annual reports, or by way of announcements.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon the Listing taking place.

The Deed of Non-Competition will cease to have effect on the earliest of the date on which (i) our Controlling Shareholders together with their close associates cease to be directly or indirectly, entitled to exercise or control the exercise of 30% or more of the Shares in issue, or our Controlling Shareholders otherwise cease to be regarded as controlling shareholders (as defined under the Listing Rules from time to time) of our Company, or (ii) our Shares cease to be listed on the Stock Exchange.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and their respective associates following the Listing.

Management Independence

Our Board comprises eight Directors, of which three are independent non-executive Directors who have extensive experience in different areas and are appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent opinions.

The three independent non-executive Directors provide checks and balances over our Board's decision-making on significant transactions. The audit committee of our Board, which comprises solely of the three independent non-executive Directors, is responsible for reviewing potential conflicts of interest (if any) as well as reviewing connected transactions (if any) falling within the scope of Chapter 14A of the Listing Rules. Such committee is also responsible for reviewing and approving the financial reporting process, risk management and internal control systems of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Other than the audit committee, we have also established a remuneration committee of our Board to ensure that Directors and senior management are properly remunerated without being over compensated. We also have a nomination committee which is responsible for ensuring that only person with capability and relevant experience are appointed as Directors and assessing the independence of our Directors on an annual basis.

Each of our Directors is aware of his fiduciary duties as a Director which require, among others, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event there is a material potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum except permitted under the Articles and/or the Listing Rules.

In the circumstances where our executive Directors are required to abstain from voting due to potential conflict of interest, it will fall to our independent non-executive Directors to employ their business judgment to make decision in our Board. Given the experience of our independent non-executive Directors, details of which are set out in the section headed “Directors and senior management” of this prospectus, we believe that the remaining Board can still function properly in the event that our executive Directors are required to abstain from voting.

Operational Independence

We are led by a management team with extensive experience in the toy manufacturing industry. Although the Lo’s Family is also part of our management team, the majority of the other members of our management team have served our Group for more than 18 years and have substantial experience in the toy industry. Please refer to the section headed “Directors and senior management — Senior management” in this prospectus for further particulars of our members of senior management.

Our organisational structure is made up of a number of operational teams and functional departments, each with specific areas of duties and responsibilities under the leadership of the management team of our Group. Our Company makes business decisions independently and has sufficient operational capacity in terms of capital, plants and machinery equipment, facilities and employees to operate our business independently. Internal control procedures are available to ensure effective operation of our business. Further, our major clients and suppliers are all independent from our Controlling Shareholders.

We have leased an office premises located at portion of 14th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong from Top Dragon, being a company owned as to 50% by each of Mr. Victor Lo and Ms. Esther Leung, details of which are set out in the section headed “Connected Transaction” in this prospectus. Our Directors are of the view that such lease is not material to our business or our operations as a whole and our operational independence will not be affected by the leasing transaction. Other than such leasing transaction, our Group has not entered into any leasing arrangements or other transactions with our Controlling Shareholders or their associates.

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Financial Independence

As at the Latest Practicable Date, our Group was not indebted to any of our Controlling Shareholders or their associates. As at the Latest Practicable Date, certain of our Group's banking facilities were secured by (1) guarantees given by our Controlling Shareholders and/or companies controlled by certain of our Controlling Shareholders; and/or (2) mortgages on properties owned by companies controlled by certain of our Controlling Shareholders, and our Group has obtained written agreement or consents in principle from the relevant creditor banks that all such securities will be released and replaced with guarantees given by our Company upon Listing.

Our Directors do not expect our Group to be financially dependent on our Controlling Shareholders (or their associates) after the Listing and are of the view that after the Listing, our Group is capable of obtaining financing from external sources and there will be no financial dependence on our Controlling Shareholders or any of their respective associates. Further, our Group has our own finance department and independent financial system and makes financial decisions according to our Group's own business needs. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt corporate governance measures with the following principles to manage potential conflict of interests and safeguard the interests of our Shareholders:

- (i) In the event that there is a material potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum except permitted under the Articles and/or the Listing Rules.
- (ii) Each of our Controlling Shareholders has undertaken to provide to our Company all information necessary for the enforcement of the undertakings or covenants in the Deed of Non-Competition.
- (iii) Each of our Controlling Shareholders has undertaken to provide an annual confirmation to our Company that he/she/it and his/her/its associates have not breached the terms of the undertakings contained in the Deed of Non-Competition.
- (iv) Each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our independent non-executive Directors of his/her/its compliance with the terms of the Deed of Non-Competition and the enforcement of the Deed of Non-Competition.
- (v) Each of our Controlling Shareholders has undertaken to abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests.

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- (vi) Each of our Controlling Shareholders who is a Director has undertaken to, together with other conflicting Directors (if any), abstain from voting and not be counted as quorum of any Board meetings for consideration and approval of any matters referred to in the Deed of Non-Competition which have or may give rise to actual or potential conflict of interests.
- (vii) Our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertakings in the Deed of Non-Competition by our Controlling Shareholders. Our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition in our Company's annual reports, or by way of announcements.
- (viii) We have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules.
- (ix) Pursuant to the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules, our Directors will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group, and to protect the interests of our Shareholders, in particular, our minority Shareholders.

CONNECTED TRANSACTION

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Our Group has entered into the following transaction with its connected person which is expected to continue after Listing and which will, upon Listing, constitute a continuing connected transaction under the Listing Rules which is subject to the announcement, disclosure and annual review and reporting requirements under Chapter 14A of the Listing Rules.

PARTICULARS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Lease of Office Premises from Top Dragon

Kiddieland Toys had in the past been leasing a portion of 14th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong with a gross floor area of approximately 8,608 sq. ft. (the “**Office Premises**”) as well as three parking spaces at Bank of America Tower from Top Dragon. As the then tenancy expired on 31 May 2016, Kiddieland Toys had on 17 June 2016 entered into a new tenancy agreement with Top Dragon in respect of the leasing of the Office Premises only (the “**Tenancy Agreement**”), and the transaction thereunder, the “**Lease Transaction**”), the principal terms of which are as follows:

Parties	:	Top Dragon as landlord and Kiddieland Toys as tenant
Premises being leased	:	Portion of 14th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong with a gross floor area of approximately 8,608 sq. ft.
Tenancy term	:	Two years from 1 June 2016 to 31 May 2018
Rental	:	HK\$480,000.00 per calendar month, inclusive of rates, government rent, management fees and air-conditional charges, payable in advance on the first day of each and every calendar month
Option to renew	:	Kiddieland Toys has the option to renew the tenancy for a further term of two years upon giving not less than one month’s written notice before the expiration of the tenancy term
Deposit	:	No deposit is payable by Kiddieland Toys under the Tenancy Agreement

The terms of the Tenancy Agreement were negotiated on an arm’s length basis and the rental chargeable under the Tenancy Agreement was in line with the then prevailing market rent.

Historical rental amounts

The total amount of rental paid by our Group in respect of the lease of the Office Premises together with three parking spaces at Bank of America Tower for FY2015, FY2016 and for the one month ended 31 May 2016 were HK\$5,760,000, HK\$5,760,000 and HK\$480,000, respectively. The total amount of rental paid by our Group in respect of the lease of the Office Premises only under the Tenancy Agreement for the eleven months ended 30 April 2017 was HK\$5,280,000.

CONNECTED TRANSACTION

Annual cap and basis of cap

Based on the monthly rental payable under the Tenancy Agreement, it is expected that the aggregate rental payable by our Group to Top Dragon pursuant to the Tenancy Agreement for the year ending 30 April 2018 and the one month ending 31 May 2018 will not exceed HK\$5,760,000 and HK\$480,000 respectively.

LISTING RULES IMPLICATIONS

As Top Dragon is owned as to 50% by each of Mr. Victor Lo (our executive Director, Chairman and one of our Controlling Shareholders) and his spouse, Ms. Esther Leung (also an executive Director and one of our Controlling Shareholders), it will become a connected person of our Company under the Listing Rules upon Listing and the Lease Transaction will upon Listing constitute a continuing connected transaction of our Company under the Listing Rules. As more than one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the rental payable under the Tenancy Agreement for the year ending 30 April 2018 are more than 0.1% but less than 5% and the aggregate rental payable under the Tenancy Agreement for the year ending 30 April 2018 exceeds HK\$3,000,000, the Lease Transaction will, upon Listing, constitute a non-exempt continuing connected transaction of our Group and in accordance with Rule 14A.76(2) of the Listing Rules, will be subject to the announcement, disclosure and annual review and reporting requirements under Chapter 14A of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rule 14A.105 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules in respect of the Lease Transaction, subject to the confirmations from our Directors and the Sole Sponsor as disclosed below.

CONFIRMATION FROM OUR DIRECTORS

According to the fair rent opinion issued by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuer, the rental under the Lease Transaction is comparative to prevailing market level and is fair and reasonable. Our Directors (including the independent non-executive Directors) are of the view that (i) the Lease Transaction was entered into in the ordinary and usual course of business of our Group, and are on normal commercial terms or better from the perspective of our Group and are fair and reasonable and in the interest of our Group and our Shareholders as a whole; (ii) taking into account the fair rent opinion issued by LCH (Asia-Pacific) Surveyors Limited, the annual cap as set out above is fair and reasonable and in the interests of our Shareholders and our Group as a whole.

Apart from the announcement requirement which strict compliance has been waived by the Stock Exchange, our Company will comply with other relevant requirements under Chapter 14A of the Listing Rules, including the annual cap as set out above, which are applicable to the Lease Transaction.

CONNECTED TRANSACTION

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the Lease Transaction was entered into in the ordinary and usual course of business of our Group, and are on normal commercial terms or better from the perspective of our Group and are fair and reasonable and in the interest of our Group and our Shareholders as a whole; (ii) taking into account the fair rent opinion issued by LCH (Asia-Pacific) Surveyors Limited, the annual cap as set out above is fair and reasonable and in the interests of our Shareholders and our Group as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of eight Directors, including five executive Directors and three independent non-executive Directors. The following table sets forth certain information regarding the members of our Board and our senior management.

Name	Age	Date of joining our Group	Present position(s)	Date of appointment as Director	Principal responsibilities	Relationship with other Director(s) and/or senior management
<i>Executive Directors</i>						
Lo Shiu Kee Kenneth (盧紹基)	46	20 May 1998	Chief executive officer and executive Director	3 June 2016	Overseeing the overall business operations of our Group including sales and marketing, managing relationship with licensors and customers, managing licensing strategies and production	Son of Mr. Victor Lo and Ms. Esther Leung and brother of Ms. Suzanne Lo and Ms. Sylvia Lo
Lo Shiu Shan Suzanne (盧紹珊)	45	20 May 1998	Executive Director	3 June 2016	Determining the cost calculation and pricing of products, handling factory audits and overseeing of purchase activities of raw materials for our Group's production factory in Dongguan, the PRC	Daughter of Mr. Victor Lo and Ms. Esther Leung and sister of Mr. Kenneth Lo and Ms. Sylvia Lo
Sin Lo Siu Wai Sylvia (洗盧紹慧)	42	20 May 1998	Executive Director	3 June 2016	Managing all design-related works in product development and liaising with licensors on product development	Daughter of Mr. Victor Lo and Ms. Esther Leung and sister of Mr. Kenneth Lo and Ms. Suzanne Lo
Lo Hung (盧鴻)	74	29 May 2002	Chairman and executive Director	3 June 2016	Overseeing daily operations of our Group's production factory in Dongguan, the PRC and managing the personnel related to product development	Spouse of Ms. Esther Leung and father of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo
Leung Siu Lin Esther (梁小蓮)	71	29 May 2002	Executive Director	3 June 2016	Managing the overall financials of our Group and shipments and inventory level of our Group's production factory in Dongguan, the PRC	Spouse of Mr. Victor Lo and mother of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Present position(s)	Date of appointment as Director/senior management of our Group	Principal responsibilities	Relationship with other Director(s) and/or senior management
<i>Independent Non-executive Directors</i>						
Tse Yuen Shan (謝婉珊)	40	31 August 2017	Independent non-executive Director	31 August 2017	Supervising and providing judgment to our Board	N/A
Man Ka Ho Donald (文嘉豪)	39	31 August 2017	Independent non-executive Director	31 August 2017	Supervising and providing judgment to our Board	N/A
Szeto Chi Yan Stanley (司徒志仁)	43	31 August 2017	Independent non-executive Director	31 August 2017	Supervising and providing judgment to our Board	N/A
<i>Senior Management</i>						
Ho Yuk Lun (何玉麟)	52	20 March 2001	Finance director	20 March 2001	Overseeing the accounts department, preparing financial statements and maintaining relationship with bankers	N/A
Cheung Yin Ha Jenny (張艷霞)	57	20 March 2001	Sales director	20 March 2001	Sales activities (the United Kingdom, Western and Central Europe)	N/A
Mong Siu Ling Doris (蒙少玲)	51	20 March 2001	Sales director	20 March 2001	Sales activities (less developed markets including Latin America, Eastern Europe and neighboring countries)	N/A
Chong Lai Nei (莊麗妮)	49	20 March 2001	Sales director	20 March 2001	Sales activities (North America, Japan and Australia)	N/A
Fong Chong Nin Johnny (方壯年)	57	20 March 2001	Logistics manager	20 March 2001	In charge of logistics department and the shipping activities of our Group	N/A
Cheung Ka Cheong (張家昌)	31	26 February 2013	Accounting manager	26 February 2013	In charge of all company secretarial works of our Group and assisting the finance director of our Company in the accounts department	N/A

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Lo Shiu Kee Kenneth (盧紹基), aged 46, is one of the founders of our Group, an executive Director and the chief executive officer of our Company and is in charge of overseeing the overall business operation of our Group including sales and marketing activities of our Group, managing relationships with licensors and customers and is also responsible for managing licensing strategies and the production of our Group's production factory in Dongguan, Guangdong Province, the PRC. He was appointed as a Director on 3 June 2016. He has been a director of each of Kiddieland US, Kiddieland Toys, Kiddieland Industrial and W. Great Worth since 1999, 2001, 1998 and 2001 respectively and a director of each of Kiddieland Group, Kiddieland Trading and Kiddieland Manufacturing since 30 May 2016. He has over 20 years of experience in the toy industry. He obtained a Master of Business Administration from Harvard University in June 1998, a Master of Science in Engineering-Economic Systems from Stanford University in January 1995, a Bachelor of Science in Engineering (Bioengineering) and a Bachelor of Science in Economics from the University of Pennsylvania in May 1993. He is also a director and shareholder of KLH Capital.

Mr. Kenneth Lo was a director of 1Stop-trade.com Limited, which was an investment holding company incorporated in Hong Kong and dissolved by deregistration on 5 October 2007 pursuant to section 291AA of the Predecessor Companies Ordinance. As confirmed by Mr. Kenneth Lo, the said company was solvent at the time of deregistration and was deregistered for reason that it was no longer in use. So far as he is aware, there was no wrongful act on his part leading to the deregistration of the said company, and such deregistration had not resulted in any liability or obligation imposed against him.

Lo Shiu Shan Suzanne (盧紹珊), aged 45, is one of the founders of our Group, an executive Director of our Company and is responsible for determining the cost calculation and pricing of our products, handling factory audits and overseeing of purchase activities of raw materials for our Group's production factory in Dongguan, Guangdong Province, the PRC. She was appointed as a Director on 3 June 2016. She has been a director of each of Kiddieland US, Kiddieland Toys, Kiddieland Industrial and W. Great Worth since 1999, 2001, 1998 and 2001 respectively and a director of each of Kiddieland Group, Kiddieland Trading and Kiddieland Manufacturing since 30 May 2016. She became a director of Kiddieland Industrial in May 1998 and became actively involved in the daily operations of our Group since 15 April 2002. Ms. Suzanne Lo has over 14 years of experience in the toy industry. During the period from July 1999 to March 2002, she was a Senior Associate of the Assurance and Business Advisory Services Department at PricewaterhouseCoopers. She obtained a Bachelor of Commerce from McGill University in May 1995. She is also a director and shareholder of KLH Capital.

Ms. Suzanne Lo was a director of Harvest Will Corporation Limited, which was an investment holding company incorporated in Hong Kong and dissolved by deregistration on 7 March 2008 pursuant to section 291AA of the Predecessor Companies Ordinance. As confirmed by Ms. Suzanne Lo, the said company was solvent at the time of deregistration and was deregistered for reason that it was no longer in use. So far as she is aware, there was no wrongful act on her part leading to the deregistration of the said company, and such deregistration had not resulted in any liability or obligation imposed against her.

DIRECTORS AND SENIOR MANAGEMENT

Sin Lo Siu Wai Sylvia (洗盧紹慧), aged 42, is one of the founders of our Group, an executive Director of our Company and is responsible for managing all design-related works in product development from concept to final production as well as liaising with licensors to ensure smooth operation at all stages of product development. She was appointed as Director on 3 June 2016. She has been a director of each of Kiddieland US, Kiddieland Toys, Kiddieland Industrial and W. Great Worth since 1999, 2001, 1998 and 2001 respectively and a director of each of Kiddieland Group, Kiddieland Trading and Kiddieland Manufacturing since 30 May 2016. She has over 18 years of experience in the toy industry. She obtained a Bachelor of Fine Arts and a Bachelor of Architecture from the Rhode Island School of Design in June 1998. She is also a director and shareholder of KLH Capital.

Lo Hung (盧鴻), aged 74, is an executive Director and the Chairman of our Company primarily responsible for overseeing the daily operations of our Group's production factory in Dongguan, the PRC and managing the personnel related to product development including designers, prototype craftsmen, engineers and mould makers. He was appointed as a Director on 3 June 2016. He has been a director of each of Kiddieland Toys, Kiddieland Industrial and Innotech since 29 May 2002 and a director of each of Kiddieland Group, Kiddieland Trading and Kiddieland Manufacturing since 30 May 2016. He joined our Group on 29 May 2002 and has over 50 years of experience in the toy industry. He is also a director and shareholder of KLH Capital.

Set out below are companies which were dissolved or struck off during the period when Mr. Victor Lo was a director:

Name of company	Place of incorporation/ establishment	Principal business activity before dissolution/striking off	Means of dissolution/ striking off	Date of dissolution/ striking off
Ridgeway Investments Limited	Hong Kong	Investment holding	Struck off under section 291 of the Predecessor Companies Ordinance	Dissolved on 24 May 2002
Dorcas Holdings Limited	Hong Kong	Investment holding	Struck off under section 291 of the Predecessor Companies Ordinance	Dissolved on 24 May 2002
Merit Asset International Limited	BVI	Investment holding	Struck off from the BVI Government Register	Struck off with effect from 1 November 2013
Playwell Toys Limited	United Kingdom	Branch office	Struck off from the U.K. Register and dissolved by notice in the London Gazette	Dissolved on 15 June 1999

DIRECTORS AND SENIOR MANAGEMENT

As confirmed by Mr. Victor Lo, each of the above companies was solvent at the time of dissolution or striking off, and such companies were dissolved or struck off for reason that they were no longer in use. So far as he is aware, there was no wrongful act on his part leading to the dissolutions or striking off of the above companies, and such dissolutions or striking off had not resulted in any liability or obligation imposed against him.

Leung Siu Lin Esther (梁小蓮), aged 71, is an executive Director of our Company primarily responsible for managing the overall financials of our Group and monitoring the monthly shipments and inventory levels of our Group's production factory in Dongguan, the PRC. She was appointed as a Director on 3 June 2016. She has been a director of each of Kiddieland Toys, Kiddieland Industrial and Innotech since 29 May 2002 and a director of each of Kiddieland Group, Kiddieland Trading and Kiddieland Manufacturing since 30 May 2016. She joined our Group on 29 May 2002 and has over 46 years of experience in the toy industry. She graduated from the Nursing School of the Medical and Health Department in December 1967 and became a registered nurse and midwife in Hong Kong in March 1967 and March 1969, respectively. She is also a director and shareholder of KLH Capital.

Set out below are companies which were dissolved or struck off during the period when Ms. Esther Leung was a director:

Name of company	Place of incorporation/ establishment	Principal business activity before dissolution/ striking off	Means of dissolution/ striking off	Date of dissolution/ striking off
Ridgeway Investments Limited	Hong Kong	Investment holding	Struck off under section 291 of the Predecessor Companies Ordinance	24 May 2002
Dorcas Holdings Limited	Hong Kong	Investment holding	Struck off under section 291 of the Predecessor Companies Ordinance	24 May 2002
Merit Asset International Limited	BVI	Investment holding	Struck off from the BVI Registrar of Corporate Affairs	1 November 2013

As confirmed by Ms. Esther Leung, each of the above companies was solvent at the time of dissolution or striking off, and such companies were dissolved or struck off for reason that they were no longer in use. So far as she is aware, there was no wrongful act on her part leading to the dissolutions or striking off of the above companies, and such dissolutions or striking off had not resulted in any liability or obligation imposed against her.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Tse Yuen Shan (謝婉珊), aged 40, was appointed as an independent non-executive Director on 31 August 2017. She is also the chairwoman of the audit committee and a member of the remuneration committee and the nomination committee of our Company. She has 14 years of experience in accounting and has been the Assistant Finance Manager at Hutchison Whampoa Properties Limited, an Executive Officer at the Occupational Safety and Health Council and a Senior Associate at PricewaterhouseCoopers. She has been a member of the Hong Kong Institute of Certified Public Accountants since 1 January 2003 and obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1999.

Man Ka Ho Donald (文嘉豪), aged 40, was appointed as an independent non-executive Director on 31 August 2017. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company. He was admitted as a solicitor of the Supreme Court of England and Wales in September 2003 and has over 10 years of experience in the legal field. Mr. Man is currently a registered foreign lawyer at Ince & Co's Hong Kong office. Prior to that, Mr. Man was a registered foreign lawyer at K. C. Ho & Fong, a director of Bangkok Smartcard Company Limited and Hwa Kay Thai (Thailand) Company Limited, and a legal advisor at Bangkok Mass Transit System Public Company Limited and VGI Global Media Limited. Mr. Man obtained a Bachelor of Science in Business Studies from The City University London (now known as the City, University of London) in July 1998.

Szeto Chi Yan Stanley (司徒志仁), aged 43, was appointed as an independent non-executive Director on 31 August 2017. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Company. Mr. Szeto is the chairman and CEO of Lever Style Inc., chairman of Textile Council of Hong Kong Ltd., vice-chairman of Hong Kong Garment Manufacturers Association Ltd., director of The Federation of Hong Kong Garments Manufacturers, Executive Committee Member of Hong Kong Shippers' Council, member of the Hong Kong Polytechnic University's Advisory Committee on Textile and Clothing Industries and a past member of the Hong Kong Government's Textiles Advisory Board. In addition, Mr. Szeto is the recipient of the 2009 Young Industrialist Award of Hong Kong. Prior to joining Lever Style Inc., Mr. Szeto worked as an associate at Prudential Asset Management Asia Limited. Mr. Szeto obtained a Bachelor of Science in Economics degree with majors in Finance and Entrepreneurial Management from the Wharton School of Finance and Commerce at the University of Pennsylvania in May 1996.

Set out below are companies which were dissolved during the period when Mr. Szeto Chi Yan Stanley was a legal representative, director and/or general manager:

Name of company	Place of incorporation/ establishment	Principal business activity before dissolution	Position	Means of dissolution	Deregistration approval date
利華成衣(惠州)有限公司 (Lihua Garment (Huizhou) Limited)	PRC	Garment design and manufacturing	Legal representative and chairman	Dissolved by deregistration	20 November 2015
華誠成衣(深圳)有限公司 (Huacheng Garment (Shenzhen) Co Limited)	PRC	Garment manufacturing	Legal representative, director and general manager	Dissolved by deregistration	26 June 2013

DIRECTORS AND SENIOR MANAGEMENT

Each of our Directors confirms with respect to him or her that save as disclosed in this prospectus, (i) he or she has not held any directorships in any companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus; (ii) he or she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders (as defined under the Listing Rules) of our Company; (iii) as at the Latest Practicable Date, save as disclosed in the paragraph headed “Further information about our Directors — Disclosure of Interests” in Appendix V to this prospectus, he or she does not have any interests in our Shares within the meaning of Part XV of SFO; (iv) there is no other information that should be disclosed for him or her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (v) to the best of his or her knowledge, information and belief having made all reasonable enquiries, there are no other matters with respect to his or her appointment as Director that need to be brought to the attention of our Shareholders.

Senior management

Ho Yuk Lun (何玉麟), aged 52, has been the finance director of our Group since he joined our Group on 20 March 2001. He is in charge of the accounts department and is responsible for overseeing the accounts department, preparing financial statements and maintaining relationship with bankers. Prior to joining our Group, he had been the chief accountant of a toy manufacturing company from April 1993 to March 1998. He had also worked in Coopers & Lybrand (now PricewaterhouseCoopers) from December 1988 to March 1993, and his last position held was an audit supervisor. He has 28 years of experience in accounting and obtained a Professional Diploma in Accountancy from Hong Kong Polytechnic University in November 1988.

Cheung Yin Ha Jenny (張艷霞), aged 57, has been the sales director of our Group since she joined our Group on 20 March 2001. She is mainly responsible for the sales activities of our Group’s products to customers in the United Kingdom, Western and Central Europe. Prior to joining our Group, she worked as a shipping clerk in a toy manufacturing company from 1978, and was later promoted as a sales executive in 1980 and a sales and marketing manager in 1998. She has over 36 years of experience in the toy industry.

Mong Siu Ling Doris (蒙少玲), aged 51, has been the sales director of our Group since she joined our Group on 20 March 2001. She is mainly responsible for the sales activities of our Group’s products to customers in less developed markets, including Latin America, Eastern Europe and neighboring countries. Prior to joining our Group, during the period from 1988 to 1998, she had been a sales executive in a toy manufacturing company and was later promoted as a sales manager. She has over 28 years of experience in the toy industry and obtained a Bachelor of Arts from the University of Hong Kong in November 1988.

Chong Lai Nei (莊麗妮), aged 49, has been the sales director of our Group since she joined our Group on 20 March 2001. Prior to joining our Group, she worked as a merchandiser in Wave Imagination Limited from 1992 to 1993. During the period from 1993 to 1998, she worked as a sales executive in a toy manufacturing company and was later promoted as a sales manager. She has over 23 years of experience in the toy industry and is mainly responsible for the sales activities of our Group’s products to our customers in North America, Japan and Australia. She obtained a Master of Social Science in Money, Banking and Finance from the University of Birmingham in July 1992.

DIRECTORS AND SENIOR MANAGEMENT

Fong Chong Nin Johnny (方壯年), aged 57, has been the logistics manager of our Group since he joined our Group on 20 March 2001. He is in charge of the logistics department and the shipping activities of our Group and has over 28 years of experience in the toy industry. Prior to joining our Group, during the period from 1988 to 1998, he had been an assistant shipping manager of a toy manufacturing company and was later promoted as a shipping manager.

Cheung Ka Cheong (張家昌), aged 31, is the accounting manager of our Group. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2014. He joined our Group in February 2013 and is responsible for all company secretarial works of our Group as well as assisting Mr. Ho Yuk Lun, the finance director of our Company in the accounts department. Prior to joining our Group, Mr. Cheung Ka Cheong was the Assistant Accountant at Hutchison Whampoa Properties Limited and Assistant Accountant at Chen Hsong Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00057). He obtained a Bachelor of Business Administration (Honours) from the City University of Hong Kong in November 2008.

None of our senior management described above has held directorships in any companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this document.

COMPANY SECRETARY

Cheung Ka Cheong (張家昌) is appointed as the company secretary of our Company on 25 January 2017. Please refer to the above for the biographical details of Mr. Cheung.

BOARD COMMITTEES

Audit committee

We have established an audit committee pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (“CG Code”). Our audit committee consists of 3 members, comprising all the independent non-executive Directors, namely Ms. Tse Yuen Shan, who is the chairwoman of our audit committee, Mr. Man Ka Ho Donald and Mr. Szeto Chi Yan Stanley. The primary duties of the audit committee include reviewing and supervising the financial reporting process and overseeing the audit process of our Group; overseeing the internal control procedures and corporate governance of our Group; supervising the internal control systems of our Group; and performing other duties and responsibilities as assigned by our Board.

Remuneration committee

We have established a remuneration committee pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. Our remuneration committee currently consists of 4 members, comprising three independent non-executive Directors and one executive Director, namely Mr. Szeto Chi Yan Stanley, who is the chairman of our remuneration committee, Ms. Tse Yuen Shan, Mr. Man Ka Ho Donald and Mr. Kenneth Lo. The primary duties of the remuneration committee are mainly (i) to develop a transparent policy in relation to remuneration; (ii) to review the remuneration policy and the structure relating to all Directors and senior management of our Group; (iii) to review performance based

DIRECTORS AND SENIOR MANAGEMENT

remunerations payable to Directors and senior management of our Group; and (iv) to make recommendations on other remuneration-related arrangement, such as, housing allowance and bonuses payable to Directors and senior management of our Group.

Nomination committee

We have established a nomination committee pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with the CG Code. Our nomination committee currently consists of 3 members, comprising all the independent non-executive Directors, namely Mr. Man Ka Ho Donald, who is the chairman of our nomination committee, Ms. Tse Yuen Shan and Mr. Szeto Chi Yan Stanley. The primary duties of the nomination committee are (i) to review the structure, size and composition of the Board on a regular basis; (ii) to make recommendations to our Board relating to the appointment and removal of Directors; (iii) to identify individuals suitably qualified to become members of the Board; and (iv) to assess the independence of our independent non-executive Directors.

CORPORATE GOVERNANCE

Our Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, we will comply with the code provisions set out in the CG Code after the Listing.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Our Directors receive remuneration in the form of director fees or salary, discretionary bonuses and/or other allowances and/or other benefits in kind. We have also adopted the Share Option Scheme which enables our Company to provide incentive or reward to our Directors, employees or other selected participants. For details of the Share Option Scheme, please refer to the section headed “Statutory and general information — IV. Share Option Scheme” in Appendix V of this prospectus. Our Group regularly reviews and determines the remuneration and compensation packages of our Directors and senior management by reference to, among others, market level of remuneration paid by comparable companies and their respective performance, duties and competence.

The aggregate remuneration (including salary, allowances and benefits in kind, and contribution to retirement benefit scheme) paid by us to our Directors for each of FY2015, FY2016 and FY2017 were approximately HK\$4.4 million, HK\$2.8 million and HK\$2.8 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in note 12 of the Accountant’s Report of our Company as set out in Appendix I to this prospectus.

The aggregate amount of salaries, commissions, bonus, other allowances, benefits in kind and contribution to retirement benefit scheme paid by us to our five highest paid individuals (excluding our Directors amongst the five highest paid individuals) for each of FY2015, FY2016 and FY2017 were approximately HK\$2.4 million, HK\$3.5 million and HK\$3.5 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group, and no compensation was paid to, or receivable by, our Directors or the five highest paid individuals for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors had waived or agreed to waive any emoluments during the Track Record Period.

Under the current arrangements, the aggregate remuneration payable to our Directors for the year ending 30 April 2018 is estimated to be approximately HK\$5.0 million.

Information on the service contracts and letters of appointment entered into between our Company and the Directors is set out in the section headed “Statutory and general information — III. Further information about our Directors — 3. Particulars of Directors’ service agreements and letters of appointment” in Appendix V to this prospectus.

COMPLIANCE ADVISER

Our Company has appointed WAG Worldsec Corporate Finance Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our Company must consult with, and if necessary, seek advice from, the compliance adviser on a timely basis in the following circumstances:

- before the publication of any regulatory announcement, circular and financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or the chief executive of our Company as at the Latest Practicable Date, immediately following completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme, the persons (other than a Director or the chief executive of our Company) who will have interests and/or short positions in our Shares, underlying Shares or debentures of our Company which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our Shares are listed on the Stock Exchange or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group are as follows:

Long position in the Shares

Name of substantial Shareholder	Type of interests	As at the Latest Practicable Date		Immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme)	
		Number of Shares	Shareholding percentage	Number of Shares	Shareholding percentage
KLH Capital	Beneficial owner	10,000	100%	750,000,000	75%

Note: Since completion of the Reorganisation, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung, all being executive Directors, hold 25%, 25%, 25%, 12.5% and 12.5% respectively of the issued shares in KLH Capital.

Save as disclosed in this prospectus, so far as is known to any Directors or the chief executive of our Company as at the Latest Practicable Date, immediately following completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme, there are no other person (other than a Director or the chief executive of our Company) who will have interests and/or short positions in the Shares, the underlying Shares or debentures of our Company which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our Shares are listed on the Stock Exchange or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

SHARE CAPITAL

Authorised share capital:

10,000,000,000 Shares HK\$1,000,000,000

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

Shares in issue or to be issued, fully paid or credited as fully paid:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
10,000	Shares in issue as at the date of this prospectus	HK\$1,000	0.001%
749,990,000	Shares to be issued under the Capitalisation Issue	HK\$74,999,000	74.999%
25,000,000	Shares to be issued under the Hong Kong Public Offering	HK\$2,500,000	2.5%
225,000,000	Shares to be issued under the International Placing	HK\$22,500,000	22.5%
<hr/>		<hr/>	<hr/>
<u>1,000,000,000</u>	Total	<u>HK\$100,000,000</u>	<u>100%</u>

SHARE CAPITAL

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

Shares in issue or to be issued, fully paid or credited as fully paid:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
10,000	Shares in issue as at the date of this prospectus	HK\$1,000	0.001%
749,990,000	Shares to be issued under the Capitalisation Issue	HK\$74,999,000	72.288%
25,000,000	Shares to be issued under the Hong Kong Public Offering	HK\$2,500,000	2.41%
225,000,000	Shares to be issued under the International Placing	HK\$22,500,000	21.687%
37,500,000	Shares to be issued upon exercise of the Over-allotment Option in full	HK\$3,750,000	3.614%
<hr style="border-top: 1px solid black;"/>		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<u>1,037,500,000</u>	Total	<u>HK\$103,750,000</u>	<u>100%</u>

Pursuant to Rule 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, at least 25% of the Company's total number of issued shares must at all times be held by the public (as defined in the Listing Rules).

Assumptions

The above tables assume that the Global Offering has become unconditional and the issue of Shares pursuant to the Global Offering and the Capitalisation Issue is made. The tables take no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company under the general mandates referred to below.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank equally for all dividends and other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus except that the Offer Shares will not be qualified for the Capitalisation Issue.

SHARE CAPITAL

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate (the “**Share Issue Mandate**”) to allot, issue and deal with unissued Shares not exceeding:

- (a) 20% of the number of Shares in issue immediately following completion of the Global Offering and Capitalisation Issue (excluding any shares that may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the total number of Shares purchased by our Company pursuant to the Share Buy-back Mandate referred to in the paragraph headed “General mandate given to our Directors to buy back Shares” below.

Our Directors may, in addition to Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to, inter alia, a rights issue, or upon the exercise of any options which may be granted under the Share Option Scheme or other option scheme or similar arrangement for the time being adopted, or any scrip dividend shares or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles.

The Share Issue Mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the end of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

For further details of the Share Issue Mandate, please see the section headed “Statutory and general information — I. Further information about our Company — 4. Written resolutions of our sole Shareholder passed on 31 August 2017” in Appendix V to this prospectus.

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO BUY BACK SHARES

Our Directors have been granted a general unconditional mandate (the “**Share Buy-back Mandate**”) to exercise all the powers of our Company to purchase such number of Shares not exceeding 10% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any shares that may be issued pursuant to the exercise of the Over-allotment Option (such 10% being 100,000,000 Shares).

The Share Buy-back Mandate only relates to purchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and general information — I. Further information about our Company — 7. Purchase by our Company of its own Shares” in Appendix V to this prospectus.

SHARE CAPITAL

The Share Buy-back Mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the end of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Share Buy-back Mandate by ordinary resolution of our Shareholders in general meeting.

For further details of the Share Buy-back Mandate, please see the section headed “Statutory and general information — I. Further information about our Company — 4. Written resolutions of our sole Shareholder passed on 31 August 2017” in Appendix V to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Principal terms of the Share Option Scheme are summarised in the section headed “Statutory and general information — IV. Share Option Scheme” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed “Summary of the constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

RULE 10.08 OF THE LISTING RULES

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except under any of the circumstances provided under Rule 10.08 of the Listing Rules.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I — Accountant’s Report” to this prospectus. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk factors”.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We are one of the leading toy manufacturers and exporters principally engaged in the design, development, manufacture and sale of a diverse portfolio of outdoor-and-sports toy products and infant-and-preschool toy products. Our products are mostly co-branded with licensed rights of entertainment properties from popular or up-and-coming characters featured in animated television series or motion pictures granted by major entertainment properties licensors. We also manufacture and sell our products under our **KIDDIELAND** brand as well as manufacture products under private labels on an ODM basis for our customers. According to the CIC Report, we ranked second in terms of total value of outdoor-and-sports toy products exported in the Guangdong Province, and ranked seventh in terms of the total value of outdoor-and-sports toy products exported in the PRC in 2016.

During the Track Record Period, our sales network has penetrated into over 70 countries across six continents. We principally sell our products to different types of retailers, such as toy specialty chain stores, multinational mass market retailers, local retailers, wholesalers or distributors as well as merchandising and sourcing firms. We have engaged sales representatives servicing our customers located in various countries, including U.S., Japan, Taiwan, Korea, Australia, UAE and countries in Latin America. During the Track Record Period, most of our sales to our customers were on an outright basis, which accounted for approximately 99.0%, 98.9% and 99.8% of our total revenue for FY2015, FY2016 and FY2017, respectively. Under our outright sales, certain of our customers entered into distribution agreements with us, whilst revenue derived from which accounted for approximately 8.0%, 4.4% and 5.3% of our total revenue for FY2015, FY2016 and FY2017, respectively. During the Track Record Period, we also engaged in consignment and retail sales in the PRC, revenue generated from which only represented an insignificant portion of revenue to our Group and we have ceased such operations in the PRC as at the Latest Practicable Date.

For FY2015, FY2016 and FY2017, our total revenue was HK\$521.0 million, HK\$445.8 million and HK\$367.1 million, respectively. Our profit attributable to owners of our Company for FY2015, FY2016 and FY2017 was HK\$36.5 million, HK\$34.0 million and HK\$22.6 million, respectively.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 3 June 2016. In preparation of the Listing, we underwent the Reorganisation, as detailed in “History, Reorganisation and Group Structure”. As a result of the Reorganisation, our Company became a holding company of the subsidiaries comprising our Group.

The financial information relating to our Group has been prepared in accordance with HKFRSs. All intra-group transactions and balances have been eliminated on consolidation. For more information on the basis of presentation and preparation of the financial information included herein, see notes 1.3 and 2.1 of section II in “Appendix I — Accountant’s Report” for details.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Popularity and market acceptance of entertainment properties co-branded with our toy products and the promotional campaigns of the respective licensors

A majority of our Group’s outdoor-and-sports toy products are co-branded with popular or up-and-coming licensed entertainment properties of animated movies, and the success of such products is to a certain extent dependent on the market acceptance of the entertainment properties which is in turn affected by the market acceptance and popularity of the movie, the marketability of the merchandising items with licensed entertainment properties, and marketing and promotion activities initiated by the licensors. Our Group’s business is therefore subject to the business cycle of the global animated movie industry and the promotional campaigns undertaken by the licensed entertainment properties licensors. The lasting effect of the animated movies on the sales of the products of the Group depends on the popularity of the movie as well as the compatibility of the movie characters to our product categories. As such, any unfavorable changes in the popularity and market acceptance of entertainment properties used in our toy products may adversely affect our business, prospects and results of operations.

Seasonality

Our results of operations are subject to seasonal fluctuations. Our shipment peak season starts from July to October in which we achieve significant higher sales than other months to meet the Christmas and New Year holiday seasons. Our production peak season starts from May to August each year in order to get prepared for our shipment peak season.

For each of FY2015, FY2016 and FY2017, sales generated in the first half (being May to October) of our financial year accounted for 66.8%, 70.1% and 68.0% of our total revenue of the respective years, respectively. Such increase in our production activity during the peak season also leads to increase in purchase of raw materials, higher inventory level as well as working capitals need to maintain our operations. Any reduction in the sales of toys during the peak season may have an adverse impact on our sales and performance. Comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. For example, our operating results of the first half of a financial year usually outperform the second half of a financial year due to the mismatch in seasonal pattern in our sales and certain of our

FINANCIAL INFORMATION

operating expenses, the trade and bills receivable for the first half of a financial year is higher than that of the second half of a financial years, and the same pattern also applies to our trade and bills payables. Due to this seasonal consumption pattern (most of which are beyond our control), our operating results and financial conditions may fluctuate from period to period.

Consumer demand and macroeconomic conditions

A substantial amount of our toy products are sold to our customers in Europe and North America. As such, our operating results and profitability are more correlated to the demand and macroeconomic conditions in Europe and North America. There are many factors affecting the level of consumer spending beyond our control, including but not limited to, disposable income, birth rate, per child annual expenditure on toy products, etc. Any decline in general economic conditions in Europe and North America may result in decrease in orders from our customers in such markets, potential delay and/or default in payment, and the withdrawal and/or reduction in our banking facilities. We cannot guarantee that we can continue to expand our customer base in Europe and North America and generate higher revenue from such markets. There is a possibility that we cannot maintain the existing level of purchase orders from our customers in Europe and North America. Any or a combination of such factors could materially and adversely affect our business, financial conditions, results of operations, prospects and profitability.

Fluctuations in foreign exchange rates

As our sales are primarily settled in USD whereas certain of our purchases and operating costs of our production plant and offices are primarily settled in RMB, we are exposed to foreign exchange risk. During the Track Record Period, our Group has experienced no material exchange losses. In addition, we are exposed to risks associated with currency conversion and the exchange rate system in the PRC.

Our profit margins will be negatively affected to the extent that we are unable to increase the selling prices of our toy products to our overseas customers to account for any appreciation of RMB against USD. Further, any future significant fluctuations in the exchange rate will result in increases or decreases in our reported costs and earnings, and also adversely affect the carrying value of our non-HKD denominated assets and our equity and, accordingly, our business, financial conditions, operating results and prospects.

Further, the depreciation of the currency of our targeted markets against USD may decrease the demand of our products in the local market of our customer as our products would appear to be more expensive on a relative basis (and not because of the physical attributes of the products of the Group becoming less appealing to our customers), which would in turn affect the sales of our Group. However, the Directors consider that the fluctuation in currencies were mainly due to the macroeconomic factors of the relevant market which is cyclical in long run.

Product mix

Our product mix broadly consists of outdoor-and-sports toy products and infant-and-preschool toy products, which can be further divided into co-brand, our **KIDDIELAND** brand and private label.

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Each of our product mix contributed to our overall revenue. Our product mix changes over time and the magnitude of such changes may impact our revenue and profitability. In the future, we will continue to evaluate and adjust our product mix from time to time and focus on products with higher profit margins, higher market demand and potential to maintain and increase our profitability.

Cost of inventories

Cost of inventories is a major component of our cost of sales, representing approximately 46.7%, 42.6% and 38.5% of our total cost of sales for FY2015, FY2016 and FY2017, respectively. The price and availability of materials may vary from period to period due to factors such as consumer demand and market conditions. As a result, we are exposed to the market risk of price fluctuation, which may increase our cost of sales. Any increase in the cost of inventories would negatively impact our gross profit margin if we are unable to pass on any increase in raw material costs to our customers.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of inventories on our profit before tax during the Track Record Period. Fluctuations in our cost of inventories are assumed to be 5% and 10%.

Hypothetical fluctuations	+/-5%	+/-10%
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/decrease in the cost of inventories		
Year ended 30 April 2015	+/-9,219	+/-18,439
Year ended 30 April 2016	+/-6,704	+/-13,408
Year ended 30 April 2017	+/-5,133	+/-10,265
Decrease/increase in profit before tax		
Year ended 30 April 2015	-/+9,219	-/+18,439
Year ended 30 April 2016	-/+6,704	-/+13,408
Year ended 30 April 2017	-/+5,133	-/+10,265

Prospective investors should note that the above analysis on historical financials is based on assumptions and is for illustrative purpose only and should not be viewed as actual result.

Staff costs

The operations of our Group are labour-intensive. For FY2015, FY2016 and FY2017, the production staff costs accounted for approximately 24.1%, 27.0% and 29.1%, respectively, of our Group's total cost of sales. The average wage per employee in the PRC has increased in recent years and may continue to increase in the future. If our Group is unable to identify and employ other appropriate means to reduce the cost of labour, or pass on the increase in the cost of labour to our customers, the results of our Group's business operations, profitability and financial conditions may be adversely affected.

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Income tax expenses

Our profit attributable to our Shareholders is affected by the level of income tax that we are obliged to pay and the level of preferential tax treatment to which we may be entitled to. During the Track Record Period, before DG Kiddieland Industrial took over all business and operations of DG Kiddieland Factory, we were entitled to the preferential tax treatment of contract processing under the Departmental Interpretation and Practice Notes No. 21 (Revised in July 2012) (“**DIPN 21**”) issued by the Inland Revenue Department of Hong Kong (the “**IRD**”). Such preferential tax treatment of contract processing arrangement was temporarily halted and resumed in January 2016. For details of the contract processing arrangement, please refer to the paragraph headed “Description of selected items in consolidated statements of comprehensive income — Income tax expense” under this section.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

Note 2 of section II of the Accountant’s Report in Appendix I to this prospectus sets forth certain significant accounting policies, which are important for understanding our financial condition and results of operations.

Note 4 of section II of the Accountant’s Report in Appendix I to this prospectus sets forth certain critical accounting estimates and judgements, which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions.

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RESULTS OF OPERATIONS

The following table summarises the consolidated statements of comprehensive income for the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this prospectus.

	For the year ended 30 April					
	2015		2016		2017	
	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue
Revenue	520,966	100.0	445,756	100.0	367,146	100.0
Cost of sales	<u>(394,762)</u>	<u>(75.8)</u>	<u>(314,740)</u>	<u>(70.6)</u>	<u>(266,682)</u>	<u>(72.6)</u>
Gross profit	126,204	24.2	131,016	29.4	100,464	27.4
Other income	1,980	0.4	1,144	0.3	893	0.2
Other gains, net	596	0.1	189	—	290	0.1
Selling and distribution expenses	(39,998)	(7.7)	(40,612)	(9.1)	(28,392)	(7.7)
Administrative expenses	<u>(40,251)</u>	<u>(7.7)</u>	<u>(40,960)</u>	<u>(9.2)</u>	<u>(47,895)</u>	<u>(13.0)</u>
Operating profit	48,531	9.3	50,777	11.4	25,360	6.9
Finance income	2,837	0.5	1,149	0.3	18	—
Finance expenses	<u>(5,192)</u>	<u>(1.0)</u>	<u>(4,315)</u>	<u>(1.0)</u>	<u>(5,904)</u>	<u>(1.6)</u>
Finance costs, net	(2,355)	(0.5)	(3,166)	(0.7)	(5,886)	(1.6)
Profit before taxation	46,176	8.9	47,611	10.7	19,474	5.3
Income tax (expenses)/credits	<u>(9,644)</u>	<u>(1.9)</u>	<u>(13,586)</u>	<u>(3.0)</u>	<u>3,110</u>	<u>0.8</u>
Profit for the year	36,532	7.0	34,025	7.6	22,584	6.2
Other comprehensive income/(loss) for the year						
<i>Item that may be reclassified to profit or loss:</i>						
Currency translation difference	<u>15</u>	<u>—</u>	<u>(1,798)</u>	<u>(0.4)</u>	<u>(2,283)</u>	<u>(0.6)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>15</u>	<u>—</u>	<u>(1,798)</u>	<u>(0.4)</u>	<u>(2,283)</u>	<u>(0.6)</u>
Total comprehensive income for the year	<u><u>36,547</u></u>	<u><u>7.0</u></u>	<u><u>32,227</u></u>	<u><u>7.2</u></u>	<u><u>20,301</u></u>	<u><u>5.5</u></u>

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DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue was principally generated from manufacturing and sale of outdoor-and-sports toy products and infant-and-preschool toy products during the Track Record Period.

By product type

The following table sets forth the breakdown of our revenue by product type for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Outdoor-and-sports toy products	403,714	77.5	349,220	78.3	287,393	78.3
Infant-and-preschool toy products	117,252	22.5	96,536	21.7	79,753	21.7
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

As illustrated above, for FY2015, FY2016 and FY2017, our Group's revenue from outdoor-and-sports toy products accounted for approximately 77.5%, 78.3% and 78.3% of our total revenue, respectively, while revenue from infant-and-preschool toy products accounted for 22.5%, 21.7% and 21.7% of our total revenue, respectively. During the Track Record Period, there was no significant change in our product mix whereby outdoor-and-sports toy products remained as our major products sold to our customers.

The following table sets forth our sales quantity and average selling price by product type for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price
	<i>'000 units</i>	<i>HK\$ per unit</i>	<i>'000 units</i>	<i>HK\$ per unit</i>	<i>'000 units</i>	<i>HK\$ per unit</i>
Outdoor-and-sports toy products	2,726	148	2,383	147	2,038	141
Infant-and-preschool toy products	1,497	78	1,256	77	1,122	71

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Our total sales quantity decreased from 4.2 million units for FY2015 to 3.6 million units for FY2016, and to 3.2 million units for FY2017. Our average selling price remained relatively stable for FY2015 and FY2016 at HK\$123 and HK\$122 per unit, respectively, and decreased to HK\$116 per unit for FY2017.

By brand

The following table sets forth the breakdown of our revenue by brand for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	<i>HK\$'000</i>	of total %	<i>HK\$'000</i>	of total %	<i>HK\$'000</i>	of total %
Co-brand	372,925	71.6	327,108	73.4	270,855	73.8
Kiddieland brand	68,266	13.1	47,229	10.6	44,452	12.1
Private label	<u>79,775</u>	<u>15.3</u>	<u>71,419</u>	<u>16.0</u>	<u>51,839</u>	<u>14.1</u>
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

During the Track Record Period, our outdoor-and-sports toy products, such as ride-on, are mainly sold under co-brand whereas our infant-and-preschool toy products are mainly sold under our **KIDDIELAND** brand. We also manufacture and sell our products under customers' private label on ODM basis.

As illustrated above, for FY2015, FY2016 and FY2017, our Group's revenue derived from co-brand accounted for approximately 71.6%, 73.4% and 73.8% of our total revenue respectively, revenue derived from **KIDDIELAND** brand accounted for 13.1%, 10.6% and 12.1% of our total revenue, respectively and revenue derived from private label accounted for 15.3%, 16.0% and 14.1% of our total revenue, respectively. Our revenue composition remained relatively stable during the Track Record Period.

By geographical regions

During the Track Record Period, our products are sold to over 70 countries around the world. Sales of our products to customers in North America and Europe contributed over 80% of our total revenue. The decrease in our revenue during the Track Record Period was primarily attributable the decrease in sales in North America and Europe markets.

For the North America market, despite the overall growth in the toy market in the U.S., our revenue in this market was more directly affected by demand and procurement strategies of four of our major customers in the U.S. which accounted for over 66% of our sales in the North America market for the Track Record Period. For example, one of the major reasons attributable to the decrease in our sales in the North America market in FY2017 was the change in product display and procurement strategies of chains of hypermarkets discounted stores operated by two of the Group's major customers in U.S..

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For our sales performance in the Europe market, despite the overall growth in the retail sales value of the toy market, our revenue in such market was more directly affected by the fluctuations in currencies in the region, which has in turn affected our European customers' budgets and preference, for example, switching towards toys products that is relatively cheaper, when they procure and import toy products. For instance, the sharp depreciation of Russian Ruble against US dollar during FY2016 had resulted in the significant decrease in orders from a major customer in Russia.

The following table sets forth the breakdown of our revenue by geographical regions for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Percentage		Percentage		Percentage	
	Revenue	of total	Revenue	of total	Revenue	of total
	HK\$'000	%	HK\$'000	%	HK\$'000	%
North America	249,186	47.8	223,905	50.2	165,074	45.0
Europe	197,559	37.9	161,594	36.3	158,960	43.3
Asia	56,114	10.8	45,732	10.3	28,627	7.8
South America	10,884	2.1	6,975	1.5	6,957	1.9
Oceania	3,688	0.7	5,799	1.3	6,585	1.8
Africa	3,535	0.7	1,751	0.4	943	0.2
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

By customer types

The following table sets forth our revenue breakdown by customer type for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	Percentage		Percentage		Percentage	
	Revenue	of total	Revenue	of total	Revenue	of total
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Wholesalers and retailers	474,090	91.0	421,246	94.5	347,072	94.5
Distributors	41,788	8.0	19,741	4.4	19,378	5.3
End customers	5,088	1.0	4,769	1.1	696	0.2
	<u>520,966</u>	<u>100.0</u>	<u>445,756</u>	<u>100.0</u>	<u>367,146</u>	<u>100.0</u>

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Cost of sales

The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Cost of inventories	184,387	46.7	134,084	42.6	102,651	38.5
Staff costs	95,299	24.1	85,058	27.0	77,530	29.1
Depreciation and amortisation	26,449	6.7	24,542	7.8	20,671	7.8
Utilities	16,934	4.3	13,530	4.3	11,918	4.5
Logistic expenses	3,148	0.8	2,915	0.9	2,775	1.0
Customs and handling charges	3,089	0.8	1,839	0.6	1,840	0.7
Government tax and surcharges	—	—	2,579	0.8	2,439	0.9
License expenses	42,481	10.8	37,122	11.8	33,100	12.4
Production overhead and others	22,975	5.8	13,071	4.2	13,758	5.1
	<u>394,762</u>	<u>100.0</u>	<u>314,740</u>	<u>100.0</u>	<u>266,682</u>	<u>100.0</u>

Cost of inventories was the largest component of our cost of sales and primarily consisted of cost of raw materials such as plastic resins, electronic parts, metal parts, printed box, pigment and chemical materials.

Staff costs represent salaries and wages, insurance, staff messing and welfare of our manufacturing operations.

License expenses represent royalty fee or expenses we incurred pursuant to licensing agreements we entered into for the right to use certain entertainment properties.

Depreciation and amortisation are primarily related to moulds, leasehold improvements, plant and machinery and tools for production use and prepaid operating lease.

Government tax and surcharges are related to PRC VAT and other tax and surcharges.

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Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by product type and by brands for the periods indicated:

By product type

	For the year ended 30 April					
	2015		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Outdoor-and-sports toy products	102,591	25.4	108,979	31.2	82,245	28.6
Infant-and-preschool toy products	<u>23,613</u>	<u>20.1</u>	<u>22,037</u>	<u>22.8</u>	<u>18,219</u>	<u>22.8</u>
	<u><u>126,204</u></u>	<u><u>24.2</u></u>	<u><u>131,016</u></u>	<u><u>29.4</u></u>	<u><u>100,464</u></u>	<u><u>27.4</u></u>

By brand

	For the year ended 30 April					
	2015		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Co-brand	95,621	25.6	102,692	31.4	76,281	28.2
Kiddieland brand	15,716	23.0	12,044	25.5	10,820	24.3
Private label	<u>14,867</u>	<u>18.6</u>	<u>16,280</u>	<u>22.8</u>	<u>13,363</u>	<u>25.8</u>
	<u><u>126,204</u></u>	<u><u>24.2</u></u>	<u><u>131,016</u></u>	<u><u>29.4</u></u>	<u><u>100,464</u></u>	<u><u>27.4</u></u>

The higher overall gross profit margin in FY2016 compared to FY2015 primarily reflected the decrease in the market price of plastic resins and hence its average procurement costs. The decrease in gross profit margin for FY2017 was mainly due to the decrease in the average selling price of our toy products.

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Other income

Other income mainly represents sales of scrapped materials, management fee from related companies and sundry income. Other income amounted to HK\$2.0 million, HK\$1.1 million and HK\$0.9 million for FY2015, FY2016 and FY2017, respectively.

Other gains, net

Net other gains include net exchange gain and net gain or loss on disposal of property, plant and equipment. Net other gains recorded a gain of HK\$0.6 million, HK\$0.2 million and HK\$0.3 million for FY2015, FY2016 and FY2017, respectively.

Selling and distribution expenses

Our selling and distribution expenses primarily consisted of (i) transportation expenses relating to delivery of our products to our customers; (ii) commission paid to our sales representatives; (iii) advertising and promotional expenses; (iv) staff costs of our sales team; and (v) products testing expenses relating to quality and laboratory testing.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Transportation expenses	20,070	50.2	23,406	57.6	16,666	58.7
Commission expenses	5,822	14.6	6,375	15.7	3,100	10.9
Advertising and promotion expenses	7,314	18.3	4,105	10.1	4,975	17.5
Staff cost	2,600	6.5	2,422	6.0	421	1.5
Products testing expenses	2,374	5.9	2,029	5.0	1,553	5.5
Other expenses	<u>1,818</u>	<u>4.5</u>	<u>2,275</u>	<u>5.6</u>	<u>1,677</u>	<u>5.9</u>
	<u><u>39,998</u></u>	<u><u>100.0</u></u>	<u><u>40,612</u></u>	<u><u>100.0</u></u>	<u><u>28,392</u></u>	<u><u>100.0</u></u>

Selling and distribution expenses amounted to HK\$40.0 million, HK\$40.6 million and HK\$28.4 million for FY2015, FY2016 and FY2017, respectively. As a percentage of total revenue, our selling and distribution expenses accounted for 7.7%, 9.1% and 7.7% during the respective years.

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Administrative expenses

Our administrative expenses mainly consisted of (i) staff cost relating to management and administrative personnel; (ii) rental expenses for our Hong Kong office and liaison offices in the PRC; (iii) tax and surcharges derived from our PRC subsidiaries including land use tax and other tax and surcharges (iv) depreciation of motor vehicles and pleasure boat; (v) professional fees; (vi) bank charges, insurance and other office expenses; and (vii) listing expenses.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended 30 April					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Staff costs	21,296	52.9	20,094	49.1	18,131	37.9
Rent and rates	6,209	15.4	6,040	14.7	6,065	12.7
Other tax and surcharges	1,279	3.2	2,148	5.2	3,533	7.4
Depreciation	2,584	6.4	1,330	3.2	797	1.7
Bank charges	2,010	5.0	1,761	4.3	2,043	4.3
Professional fees	1,127	2.8	938	2.3	457	0.9
Listing expenses	—	—	4,274	10.4	12,992	27.1
Insurance	912	2.3	925	2.3	741	1.5
Other office expenses	4,834	12.0	3,450	8.5	3,136	6.5
	<u>40,251</u>	<u>100.0</u>	<u>40,960</u>	<u>100.0</u>	<u>47,895</u>	<u>100.0</u>

Administrative expenses amounted to HK\$40.3 million, HK\$41.0 million and HK\$47.9 million for FY2015, FY2016 and FY2017, respectively. As a percentage of total revenue, our administrative expenses accounted for 7.7%, 9.2% and 13.0% during the respective years.

Finance cost, net

Net finance cost principally represents interest expenses on bank overdraft and other bank borrowings net of interest income on bank deposits and from a related company. Our bank overdraft is mainly for the use of working capital. For details of our bank overdraft and bank borrowings, please refer to the sub-section headed “Indebtedness” in this section. Our net finance costs amounted to HK\$2.4 million, HK\$3.2 million and HK\$5.9 million for FY2015, FY2016 and FY2017, respectively.

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Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) *Cayman Island and BVI profits tax*

Our Group has not been subject to any taxation in the Cayman Islands and BVI.

(ii) *Hong Kong profits tax*

Our Group were subject to Hong Kong profits tax at the rate of 16.5% during the Track Record Period on the estimated assessable profit.

Our DG Kiddieland Factory was established as a contract processing factory and pursuant to an agreement between Kiddieland Industrial and 東莞市塘廈鎮鎮聯經貿有限公司 (Dongguan Tangxia Town Zhenlian Jingmao Co., Ltd.), an Independent Third Party, in the PRC and DG Kiddieland Factory is the processing facility responsible for the production of toy products for the supply to Kiddieland Industrial under the contract processing arrangement.

Pursuant to Departmental Interpretation and Practice Notes No. 21 (Revised in July 2012) (“**DIPN 21**”) issued by the Inland Revenue Department of Hong Kong (“**IRD**”), in the event of (i) a Hong Kong company entering into a contract processing arrangement with a PRC processing entity where the production processes are carried out at a processing facility situated in the PRC; (ii) such Hong Kong company provides raw materials and machineries without consideration and the technical and managerial know-how while the PRC processing entity offers factory premises, utilities and labour force in return for a processing fee from the Hong Kong company according to the processing agreement; and (iii) the legal title of raw materials and finished goods remains with the Hong Kong company (“**DIPN 21 Interpretation**”), profits of the Hong Kong company generated from the sale of goods that are manufactured/processed by such PRC processing entity can be entitled to the 50% offshore claim so that 50% of such profit is apportioned and treated as derived outside Hong Kong and the chargeable profits so apportioned can be treated as non-taxable in Hong Kong.

Accordingly, Kiddieland Industrial was entitled to have 50% offshore claim in relation to the profits generated from the sales of goods that were manufactured by DG Kiddieland Factory under the contract processing arrangement pursuant to DIPN 21.

On 20 January 2014, DG Kiddieland Industrial was established in view of the “Notice concerning the actions required for processing enterprises in Dongguan City to transform into foreign-funded enterprises on the same site without cessation of production” (關於做好東莞市來料加工企業就地不停產轉三資企業有關工作的通知). Please refer to the section headed “Regulatory overview — Regulations relating to processing trade agreement” of this prospectus for details of relevant laws and regulation and background of the transformation of the Group’s production arrangement. After the establishment of DG Kiddieland Industrial, it manufactured toy products for our Group under import processing arrangement and such arrangement was excluded from the entitlement of the 50% offshore claim pursuant to DIPN 21. In view of the tax benefit of entitlement to 50% offshore claim as discussed above and that DG Kiddieland Industrial obtained

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the qualification as a contract processing factory in August 2015, our Group decided to transform the manufacturing arrangement between DG Kiddieland Industrial and Kiddieland Industrial from import processing back to contracting processing. In FY2017, our Group has transformed from import processing arrangement to contract processing arrangement. As a result, our Group recorded relatively higher Hong Kong profits tax expense for FY2015 and FY2016 as Kiddieland Industrial was not entitled to a 50% offshore claim in relation to profits generated under the import processing arrangement in those periods. After the contract processing arrangement was resumed between Kiddieland Industrial and DG Kiddieland Industrial in FY2017, while such transformation had insignificant impact on our Group's cost structure as a whole, Kiddieland Industrial was entitled to the 50% offshore claim pursuant to DIPN 21 and a lower Hong Kong profits tax expense was recognised by our Group for FY2017.

Based on the fact that (i) the contract processing arrangement between Kiddieland Industrial and DG Kiddieland Industrial was in line with the DIPN 21 Interpretation and (ii) DG Kiddieland Industrial did not carry out domestic sales in the PRC and all toy products manufactured by DG Kiddieland Industrial were delivered to Kiddieland Industrial, our Directors, after consultation with a Hong Kong tax adviser, are of the view that Kiddieland Industrial is entitled to the 50% offshore claim in relation to the profits generated from sales of goods that were produced by DG Kiddieland Industrial under the contract processing arrangement pursuant to DIPN 21. Please see section headed "Risk factor — Any change in our tax treatment could reduce our profitability" in this prospectus for details on the risks associated with our tax provision and tax treatment.

(iii) PRC enterprise income tax

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the PRC companies in our Group during the Track Record Period.

(iv) U.K. corporation tax

U.K. corporation tax has not been provided as our Group did not generate any assessable profits in the U.K. during the Track Record Period.

(v) US corporate income tax

Under the relevant tax laws in the US, our Group were subject to corporate income tax at a progressive tax rate of 5% to 39% during the Track Record Period on the estimated assessable profit.

For FY2015, FY2016 and FY2017, we recorded U.S. corporate income tax of HK\$79,000, HK\$145,000 and HK\$109,000, respectively, for profits recorded by Kiddieland US which was mainly responsible for the purchasing and importing of our toy products from Kiddieland Toys for re-sale to two U.S. customers who requested to trade on POE terms as well as engaging a third party warehousing service provider in U.S. to handle the storage and delivery of our products to such U.S. customers when requested. However, Kiddieland US merely maintains a registered office in the U.S. and did not employ any staff locally whereas most of the sales liaison, logistic arrangement, and other clerical works of our Group were handled by Kiddieland Industrial and Kiddieland Toys in Hong Kong, while our Group's manufacturing function was responsible by DG Kiddieland Industrial in the PRC. As such, Kiddieland

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US was only responsible for limited works and took up minimal functions and risks of our Group's overall operation. Sales proceeds from domestic sales of Kiddieland US were substantially used to cover costs of toy products purchased from Kiddieland Toys and service fee charged by the third party warehousing service provider, accordingly Kiddieland US recorded relatively lower profits and U.S. corporate income tax during the Track Record Period.

Our Group recorded income tax expenses of HK\$9.6 million and HK\$13.6 million and income tax credit of HK\$3.1 million for FY2015, FY2016 and FY2017, respectively; the effective tax rate for the same period was 20.9%, 28.5% and negative 16.0%, respectively.

Our subsidiaries in Hong Kong have been adopting 30 April as their financial year end. Pursuant to the relevant tax rules and practices in Hong Kong, our subsidiaries in Hong Kong usually make relevant tax filings for a financial year in the year of assessment of the IRD in April in the following calendar year (i.e. around 12 months after the financial year end), receive the notice of assessment issued by the IRD in July of the following calendar year (i.e. around 15 months after the financial year end), and pay the relevant income tax in October in the following calendar year pursuant to IRD's notice of assessment (i.e. around 18 months after the financial year end). In addition, tax payment in respect of Hong Kong profits tax comprises profits tax for a year of assessment, plus the provisional profits tax for the following year of assessment, and net of provisional profits tax paid previously for the year of assessment. Our enterprise income tax filings in the PRC are submitted on a quarterly or monthly basis. Our tax payments in respect of the PRC enterprise income tax are normally settled in the month after our submission of tax filings. Such tax practices in Hong Kong and the PRC resulted collectively in a timing difference between income tax charged to the profit or loss and income tax paid of our Group during the Track Record Period.

For FY2015, our Group's tax payments of HK\$2.7 million comprised (i) payments for provisional Hong Kong profits tax of HK\$1.8 million for the financial year ended 30 April 2014 net of overpayment of Hong Kong profits tax of HK\$0.3 million for the financial year ended 30 April 2013; (ii) payments for PRC enterprise income tax of HK\$1.1 million incurred during April 2014 to March 2015; and (iii) payments for US corporate income tax of HK\$79,000 for the financial year ended 31 December 2014.

For FY2016, our Group's tax payments of HK\$6.5 million comprised (i) payments for provisional Hong Kong profits tax of HK\$3.0 million for the financial year ended 30 April 2015 and the balance of Hong Kong profits tax payable of HK\$1.4 million for the financial year ended 30 April 2014; (ii) payments for PRC enterprise income tax of HK\$2.0 million incurred during April 2015 to March 2016; and (iii) payments for US corporate income tax of HK\$0.1 million for the financial year ended 31 December 2015.

For FY2017, our Group's tax payments of HK\$14.6 million comprised (i) payments for provisional Hong Kong profits tax of HK\$8.9 million for the financial year ended 30 April 2016 and the balance of Hong Kong profits tax payable of HK\$4.7 million for the financial year ended 30 April 2015; (ii) payments for PRC enterprise income tax of HK\$0.9 million incurred during April 2016 to March 2017; and (iii) payments for US corporate income tax of HK\$0.1 million for financial year ended 31 December 2016.

During the Track Record Period, certain subsidiaries of our Group recorded losses and our Group had accumulated tax losses available for utilisation by those entities in relevant tax jurisdictions of HK\$8.5 million, HK\$23.0 million and HK\$12.5 million as at 30 April 2015, 2016 and 2017,

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respectively. The increase in our tax losses from HK\$8.5 million in FY2015 to HK\$23.0 million in FY2016 was mainly attributable to (i) the loss recorded by DG Kiddieland Industrial which reflected its performance during January to April 2016 when the Group's business was in a slack season; (ii) the loss making of DG Kiddieland Toy as a result of its unfavorable performance in the PRC market; and (iii) the losses recorded by W. Great Worth and Innotech because they provided only auxiliary services, such as clerical work in relation to purchasing, design and marketing, to Kiddieland Industrial and income of these subsidiaries could not completely cover the expenses incurred during FY2016. Attributable to the utilisation of tax loss of DG Kiddieland Industrial during FY2017, our Group's tax losses available for utilisation reduced to HK\$12.5 million as at 30 April 2017.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OUR OPERATION

FY2017 compared to FY2016

Revenue

Our revenue decreased by HK\$78.7 million, or 17.7%, from HK\$445.8 million for FY2016 to HK\$367.1 million for FY2017 primarily due to the decrease in our sales in North America by HK\$58.8 million and Asia by HK\$17.1 million which was due to the decrease in sales to certain major customers of the relevant markets as discussed below as well as the diminished enthusiasm of consumers for a number of entertainment properties of the blockbuster movies launched in 2013 and 2014.

The decrease in our sales in North America was mainly attributable to:

- (i) changes in product display and procurement strategies of two of our major customers in the U.S. resulted in the decrease in our sales in the period which the Directors consider such changes of our customer were standalone events which imposed isolated impact on our Group during the year;
- (ii) the overall decrease in the average selling prices of our toy products by 5.1% as certain of our major customers bargained for lower prices in view of the then decrease in prices of plastic resins, however, our Directors do not expect any significant decreases in prices of plastic resins that would lead to further decrease in the average selling prices of our toy products in the near future in view of the stabilising market price of crude oil (being the raw material for producing plastic resins) subsequent to the Track Record Period; and
- (iii) reduction in orders from certain customers in Canada and Mexico in aggregate by HK\$8.7 million which the Directors believe was due to local currency depreciation in FY2017.

The decrease in our sales in Asia was mainly due to:

- (i) the reduction in orders from a customer in Japan, who is a multinational toy-specialty and juvenile-product retailer, which the Directors believe was mainly because they reduced its resources in developing the Japanese market for its private label toy products;

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- (ii) the reduction in orders from a customer in United Arab Emirates which the Directors believe may be due to a new import testing requirement imposed that resulted in higher import cost for them; and
- (iii) our withdrawal from the China market during the year in view of the increasing costs of obtaining licensing rights for distribution of toy products co-branded with entertainment properties in the PRC which the directors consider no longer commercially justified to market such products in China. As our revenue generated from the sale of co-branded toy products only accounted for a very insignificant portion of our total revenue, our Directors consider that such strategy has no material adverse impact on our Group's business and financial position in the foreseeable future.

Further to the above, the overall decrease in our sales of our co-branded products by HK\$56.3 million in FY2017 compared to FY2016 was also attributable to the decrease in the sales of toys co-branded with two entertainment properties of blockbuster animated movies launched in November 2013 and July 2014 which had a greater favourable impact on our sales in FY2016 but significantly diminished in FY2017. In the absence of a blockbuster animated movie that boosted our Group's sales like in FY2015 and FY2016, our sales of toy products co-branded under such entertainment property decreased in FY2017.

Despite the retail sales revenue of infant-and-preschool toys and outdoor-and-sports toys of the U.S. market recorded a CAGR of 1.0% and 5.8% respectively during 2012 to 2016, according to the CIC Report, such minor market growths have been fully offset by the unfavourable impacts from the changes in product display strategy and procurement strategy of our major U.S. customers, the decrease in average selling prices of our toy products, and the general decrease in sales of our co-branded toy products as discussed above.

Cost of sales

Our cost of sales decreased by HK\$48.1 million, or 15.3%, from HK\$314.8 million for FY2016 to HK\$266.7 million for FY2017. Such decrease was mainly attributable to (i) the decrease in our costs of inventories by 23.4% in the period because of the decrease in production and sales in the period and the decrease in market prices of plastic resins that resulted in the decrease in our average procurement cost of major raw materials by around 5.9% in the period; (ii) a decrease in direct labour costs by HK\$7.5 million whereby our average number of production staff decreased by 13.0% in FY2017; (iii) a decrease in depreciation and amortisation by HK\$3.9 million as certain fixed assets were fully depreciated during FY2017; and (iv) a decrease in license expenses by HK\$4.0 million mainly as a result of the decrease in our sales of licensed toy products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by HK\$30.5 million, or 23.3%, from HK\$131.0 million for FY2016 to HK\$100.5 million for FY2017. Our gross profit margin decreased from 29.4% for FY2016 to 27.4% for FY2017, which was mainly due to the decrease in the average selling price of our toy products as discussed above.

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Other income

Other income slightly decreased from HK\$1.1 million for FY2016 to HK\$0.9 million for FY2017 mainly because we ceased to receive management fee from a related company.

Other gains, net

Net other gains increased by HK\$101,000, or 53.4%, from HK\$189,000 for FY2016 to HK\$290,000 for FY2017 due to gain on disposal of motor vehicle and an increase in exchange gain.

Selling and distribution expenses

Selling and distribution expenses decreased by HK\$12.2 million, or 30.0%, from HK\$40.6 million for FY2016 to HK\$28.4 million for FY2017. The decrease was mainly attributable to (i) the decrease in freight charges; (ii) the decrease in commission paid to our sales representatives in North America due to the decrease in sales in the region; and (iii) the decrease in staff cost due to decrease in the number of sales personnel in the PRC as we ceased our consignment sales and retail sales operations in the PRC.

Administrative expenses

Administrative expenses increased by HK\$6.9 million, or 16.8%, from HK\$41.0 million for FY2016 to HK\$47.9 million for FY2017. The increase was mainly attributable to (i) the listing expenses of HK\$13.0 million incurred during the year and (ii) the increase in tax and surcharges related to the fine of approximately RMB0.9 million (equivalent to approximately HK\$1.1 million) in respect of the unlawful use of land. Please refer to the section headed “Business — Our properties — Properties that we occupied in the PRC — Rectification” for further details. The impact of the increases in listing expenses and tax and surcharges was partially offset by decrease in staff costs due to the decrease in staff bonus and reversal of over-provision of long service payment in prior year.

Finance cost, net

Net finance costs increased by HK\$2.7 million, or 84.4%, from HK\$3.2 million for FY2016 to HK\$5.9 million for FY2017 due to the increase in other bank borrowing interest from HK\$2.6 million to HK\$4.7 million as a result of the increase in the level of bank borrowings.

Income tax expense/(credit)

We recorded income tax expense of HK\$13.6 million for FY2016 and income tax credit of HK\$3.1 million for FY2017. The change was mainly due to (i) the reversal of over-provision of Hong Kong profits tax of HK\$2.6 million in prior year as (a) Kiddieland Industrial’s trading profit for FY2016 derived under the import processing arrangement with DG Kiddieland Industrial was wholly subject to Hong Kong profits tax and (b) our operation resumed back to the contract processing arrangement since DG Kiddieland Industrial obtained the relevant qualification and a 50:50 apportionment basis was adopted on the profits we derived in Hong Kong for FY2017; (ii) utilisation of previously unrecognised tax losses of DG Kiddieland Industrial of HK\$3.3 million; and (iii) a reversal of temporary difference on deferred taxation of HK\$4.0 million due to the resumption from import processing to contract processing described in (i). See note 10 of section II of the Accountant’s Report in Appendix I to this prospectus for details.

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Profit for the year

As a result of the foregoing, profit for the year decreased by HK\$11.4 million, or 33.5%, from HK\$34.0 million for FY2016 to HK\$22.6 million for FY2017. Our net profit margin decreased from 7.6% for FY2016 to 6.2% for FY2017.

FY2016 Compared to FY2015

Revenue

Our revenue decreased by HK\$75.2 million, or 14.4%, from HK\$521.0 million for FY2015 to HK\$445.8 million for FY2016 primarily due to the decrease in our sales in Europe by HK\$36.0 million and the overall decrease in our sales of co-branded products as a result of the diminished enthusiasm of consumer for a number of entertainment properties of blockbuster movies and TV series.

The decrease in our sales in Europe was mainly due to (i) the sharp depreciation of Russian Ruble against US dollar which led to the substantial decrease in orders from a major customer in Russia which was one of our top 5 customer in FY2015; and (ii) the significant economic downturn in EU whereby GDP in EU decreased by 12.4% in year 2015 compared to that of the year 2014 (as reflected in FY2016 and FY2015 respectively) which also leads to a significant depreciation of Euro against USD.

As such, despite the retail sales revenue of infant-and-preschool toys and outdoor-and-sports toys of the EU market recorded a CAGR of 4.6% and 4.7% respectively during 2012 to 2016, according to the CIC Report, the decrease in our revenue generated from European market was mainly due to the significant depreciation of Russian Ruble and Euro against USD whereby our products became relatively more expensive to our customers in Europe thus decreased their demand for our products. Moreover, the Directors believe that since the Group's products co-branded with internationally renowned entertainment properties entail relatively higher retail prices than other similar toys that are not under renowned brands, so that the economic downturn in the EU market had imposed a greater adverse impact to the demand of our co-branded products.

In addition to the above, the timing of the releases of certain entertainment properties also had a significant impact on our overall sales in FY2016. Our sales of co-branded products decreased by HK\$45.8 million in FY2016 was mainly as a result of the decrease in the sales of toys branded under three entertainment properties. One of which relates to a cartoon TV series first launch in 2012 but we only launched our products co-branded under such entertainment property since FY2014, and we were still able to capture the initial wave of new product launch in FY2015, the second one relates to a blockbuster animated movie launched in the summer of 2014 and the third one relates to a character series which the licensor has conducted certain marketing activities in 2013, whereby the positive impact of the above on our sales orders were more significant in FY2015 and started to diminish since FY2016.

Cost of sales

Our cost of sales decreased by HK\$80.1 million, or 20.3%, from HK\$394.8 million for FY2015 to HK\$314.7 million for FY2016. Such decrease was mainly due to (i) a decrease in cost of inventories by HK\$50.3 million mainly attributable to the decrease in market prices of plastic resins which our average procurement cost of major raw materials decreased by 18.8%; (ii) a decrease in staff costs, utilities and production overhead costs and others whereby our average number of production staff decreased by

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15.3% in FY2016 as we continued to streamline our production process. To maintain the competitiveness of our product pricing, we had strived to improve the product design and production process with an aim to streamline the production process and minimise the raw material consumption in order to lower the unit cost of our products. As such, as a percentage of total revenue, our cost of sales decreased from 75.8% for FY2015 to 70.6% for FY2016.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by HK\$4.8 million or, 3.8%, from HK\$126.2 million for FY2015 to HK\$131.0 million for FY2016. Our gross profit margin increased from 24.2% for FY2015 to 29.4% for FY2016, which was mainly due to the decrease in our cost of sales as described above. In particular, gross profit margin of our outdoor-and-sports toy products increased from 25.4% in FY2015 to 31.2% in FY2016, which was partly due to our effort in improving the design and to streamline the production of our ride-on products as discussed above. Since ride-on has been our major product accounting for over 70% of our sales in FY2015 and FY2016, our improvements on such design have a significant effect on our overall profitability. For the same reason, as most of our co-branded products are outdoor-and-sports toy products, our gross profit margin of such co-branded products also improved from 25.6% in FY2015 to 31.4% in FY2016.

Other income

Other income decreased by HK\$0.9 million, or 45.0%, from HK\$2.0 million for FY2015 to HK\$1.1 million for FY2016. The decrease in other income was mainly due to a decrease in sundry income by HK\$0.7 million as a result of (i) decrease in transportation and handling fee charged to suppliers; and (ii) the absence of an one-off income in relation to refund of yacht club membership fee in FY2015.

Other gains, net

Net other gains decreased by HK\$0.4 million, or 66.7%, from HK\$0.6 million for FY2015 to HK\$0.2 million for FY2016. The decrease was mainly due to a decrease in exchange gain.

Selling and distribution expenses

Selling and distribution expenses slightly increased by HK\$0.6 million, or 1.5%, from HK\$40.0 million for FY2015 to HK\$40.6 million for FY2016. The increase was primarily due to an increase in transportation expenses by HK\$3.3 million due to the change in packaging requirement for goods delivered to a major customer in the U.S. that resulted in additional warehousing costs, and partially offset by a decrease in advertising and promotion expense by HK\$3.2 million due to the absence of an one-off promotion expense paid to one of our customers incurred in FY2015. As a percentage to revenue, our selling and distribution expenses increased from 7.7% in FY2015 to 9.1% in FY2016.

Administrative expenses

Administrative expenses slightly increased by HK\$0.7 million, or 1.7%, from HK\$40.3 million for FY2015 to HK\$41.0 million for FY2016. The increase was primarily due to listing expenses of HK\$4.3 million incurred during the period and partially offset by (i) a decrease in depreciation expenses by

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HK\$1.3 million mainly related to depreciation of a pleasure boat which was disposed in FY2015 and hence maintenance expenses for such pleasure boat also decreased during FY2016; and (ii) a decrease in staff costs by HK\$1.2 million attributable to the decrease in directors' housing benefits.

Finance cost, net

Net finance costs increased by HK\$0.8 million, or 33.3%, from HK\$2.4 million for FY2015 to HK\$3.2 million for FY2016. The increase was mainly due to a decrease in interest income from a related company.

Income tax expense

Income tax expense increased by HK\$4.0 million, or 41.7%, from HK\$9.6 million for FY2015 to HK\$13.6 million for FY2016. This was due to the current tax in FY2015 was provided under contract processing while the current tax in FY2016 was provided under importing processing. See note 10 of section II of the Accountant's Report in Appendix I to this prospectus for details.

Profit for the year

As a result of the foregoing, profit for the year decreased by HK\$2.5 million, or 6.8%, from HK\$36.5 million for FY2015 to HK\$34.0 million for FY2016. Our net profit margin slightly increased from 7.0% for FY2015 to 7.6% for FY2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our operations are capital intensive, and our primary uses of cash are for our operations, repayment of bank borrowings, advances to related companies, settlement of licenses liabilities and dividend paid and have been funded through a combination of cash generated from our operations, bank borrowings, repayment from related companies. We currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed "Future plans and use of proceeds" in this Prospectus.

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The following table summarises our consolidated cash flow statements for the periods indicated:

	For the year ended 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	78,171	99,563	10,564
Net cash used in investing activities	(44,836)	(71,215)	(68,882)
Net cash (used in)/generated from financing activities	<u>(42,725)</u>	<u>(21,045)</u>	<u>81,624</u>
Net (decrease)/increase in cash and cash equivalents	(9,390)	7,303	23,306
Effect on exchange rate difference	(42)	(797)	(265)
Cash and cash equivalents and bank overdrafts at beginning of the year	<u>(18,912)</u>	<u>(28,344)</u>	<u>(21,838)</u>
Cash and cash equivalents and bank overdrafts at end of the year	<u><u>(28,344)</u></u>	<u><u>(21,838)</u></u>	<u><u>1,203</u></u>

We had cash and bank balances of HK\$15.5 million, HK\$15.2 million and HK\$7.9 million as at 30 April 2015, 2016 and 2017, respectively. For the purpose of consolidated cash flows statement pursuant to the relevant accounting standard, our bank overdrafts are presented as an integral part of our cash and cash equivalents as at respective period end. Accordingly, we recorded in our consolidated cash flow statements bank overdrafts in excess of cash and bank balances of HK\$28.3 million and HK\$21.8 million as at 30 April 2015 and 2016 respectively, and cash and bank balances net of bank overdrafts of HK\$1.2 million as at 30 April 2017. For details of our bank overdrafts, please refer to the sub-section headed “Indebtedness” in this section.

Net cash generated from operating activities

During our Track Record Period, our cash inflow from operating activities was principally from the sales and distribution of our toy products. Our cash outflow used in operating activities was principally for purchases of raw materials and payments for licenses fee, staff costs and other operating expenses.

Net cash generated from operating activities amounted to HK\$10.6 million for FY2017, was a combined result of HK\$70.1 million of cash generated from operations before working capital change, interest received of HK\$18,000, interest paid of HK\$5.3 million and income tax paid of HK\$14.6 million and change in working capital of HK\$39.6 million. The change in our working capital primarily reflected (i) a HK\$17.3 million increase in inventories; (ii) a HK\$5.7 million increase in trade and bills receivables; (iii) a HK\$1.3 million increase in other receivables, deposits and prepayments; (iv) a HK\$3.9 million decrease in trade and bills payables; and (v) a HK\$11.4 million decrease in accruals and other payables.

Net cash generated from operating activities amounted to HK\$99.6 million for FY2016, was a combined result of HK\$99.1 million of cash generated from operations before working capital change, interest received of HK\$35,000, interest paid of HK\$4.5 million and income tax paid of HK\$6.5 million and change in working capital of HK\$11.5 million. The change in our working capital primarily

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reflected (i) a HK\$7.0 million decrease in inventories; (ii) a HK\$2.5 million increase in trade and bills receivables; (iii) a HK\$4.5 million decrease in other receivables, deposits and prepayments; (iv) a HK\$1.4 million increase in trade and bills payables; and (v) a HK\$1.5 million increase in accruals and other payables.

Net cash generated from operating activities amounted to HK\$78.2 million for FY2015, was a combined result of HK\$99.5 million of cash generated from operations before working capital change, interest received of HK\$5,000, interest paid HK\$5.2 million and income tax paid of HK\$2.7 million and change in working capital of HK\$13.5 million. The change in our working capital primarily reflected (i) a HK\$12.6 million decrease in inventories; (ii) a HK\$4.1 million decrease in trade and bills receivables; (iii) a HK\$1.2 million increase in other receivables, deposits and prepayments; (iv) a HK\$17.8 million decrease in trade and bills payables; and (v) a HK\$10.6 million decrease in accruals and other payables.

Net cash used in investing activities

For FY2017, our Group had net cash used in investing activities of HK\$68.9 million attributable to (i) advances to related companies of HK\$23.8 million; (ii) settlements of licenses liabilities of HK\$23.5 million; (iii) payment for acquisition of land use right of HK\$7.6 million; and (iv) purchase of property, plant and equipment of HK\$14.0 million.

For FY2016, our Group had net cash used in investing activities of HK\$71.2 million attributable to (i) advances to related companies of HK\$52.9 million; (ii) settlements of licenses liabilities of HK\$24.2 million; and (iii) purchases of property, plant and equipment of HK\$10.7 million in relation to our plant and machinery and moulds work-in-progress, and was partially offset by repayment from related companies of HK\$16.6 million.

For FY2015, our Group had net cash used in investing activities of HK\$44.8 million attributable to (i) advances to related companies of HK\$28.5 million; (ii) settlements of licenses liabilities of HK\$20.6 million; and (iii) purchases of property, plant and equipment of HK\$17.6 million in relation to our moulds and tools, moulds work-in-progress and construction-in-progress, and partially offset by repayment from related companies of HK\$21.8 million.

Our Directors confirm that no further advance to related companies or shareholders relating to investing activities will be made after Listing.

Net cash (used in)/generated from financing activities

For FY2017, our Group had net cash generated from financing activities of HK\$81.6 million primarily attributable to proceeds from bank borrowings of HK\$273.6 million and partially offset by the repayment of bank borrowings of HK\$189.3 million and listing cost paid of HK\$2.6 million.

For FY2016, our Group had net cash used in financing activities of HK\$21.0 million primarily attributable to (i) repayment of bank borrowings of HK\$177.5 million; (ii) dividend paid of HK\$27.0 million; and (iii) repayment to shareholders of HK\$7.3 million, and partially offset by proceeds from bank borrowings of HK\$193.1 million.

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For FY2015, our Group had net cash used in financing activities of HK\$42.7 million primarily attributable to (i) repayment of bank borrowings of HK\$185.5 million; (ii) dividend paid of HK\$22.0 million; and (iii) repayment to shareholders of HK\$5.0 million, and partially offset by proceeds from bank borrowings of HK\$170.4 million.

Net Current Assets

We recorded net current assets of HK\$33.3 million, HK\$53.4 million, HK\$23.8 million and HK\$36.2 million as at 30 April 2015, 30 April 2016, 30 April 2017 and 31 July 2017, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 30 April			As at 31 July
	2015	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>			
Current Assets				
Inventories	99,604	91,456	107,478	124,878
Trade and bills receivables	30,575	33,050	38,714	64,132
Other receivables, deposits and prepayments	7,154	3,498	7,218	7,842
Amounts due from related companies	125,631	164,739	90,194	90,799
Amounts due from shareholders	7,252	7,252	169	74
Loan due from a shareholder classified as financial assets at fair value through profit or loss	14,584	—	—	—
Income tax recoverable	—	53	2,962	2,962
Cash and bank balances	15,516	15,223	7,878	7,432
	300,316	315,271	254,613	298,119
Current Liabilities				
Bank borrowings	111,241	120,044	161,010	174,202
Trade and bills payables	21,576	22,681	18,139	33,702
Accruals and other payables	55,517	53,854	42,232	45,170
Amounts due to related companies	38,635	38,490	—	—
Amounts due to shareholders	13,758	6,416	—	—
Derivative financial instruments	14,584	—	—	—
Income tax payable	11,730	20,433	9,475	8,814
	267,041	261,918	230,856	261,888
Net current assets	33,275	53,353	23,757	36,231

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Our Group's net current assets increased from HK\$33.3 million as at 30 April 2015 to HK\$53.4 million as at 30 April 2016. The increase in our net current assets was mainly a combined result of (i) the increase in net cash we generated from our operations in FY2016 compared to that in FY2015; (ii) the reduction in capital expenditure in FY2016 compared to that in FY2015 as our capital expenditure in moulds and tools was higher in FY2015 and we undertook certain construction work for our factory in the PRC in FY2015; and (iii) the increase in dividend we paid for FY2016 compared to that for FY2015.

Our Group's net current assets decreased from HK\$53.4 million as at 30 April 2016 to HK\$23.8 million as at 30 April 2017. The decrease in our net current assets was mainly a combined result of (i) the decrease in net cash we generated from our operations in FY2017 compared to that in FY2016; (ii) a dividend of HK\$60.0 million we declared in FY2017 which was settled by offsetting the amount due from a related company as designated by the then shareholders of Kiddieland Industrial; and (iii) we received proceeds from long-term bank borrowings of around HK\$13.0 million in the year.

Our Group's net current assets increased from HK\$23.8 million as at 30 April 2017 to HK\$36.2 million as at 31 July 2017. The increase primarily reflected the increase in net cash we generated from our operations for the period.

Working Capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including cash generated from operating activities, the existing bank borrowings, the available banking facilities and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus. We monitor and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the effects of fluctuations in cash flows. Our Directors monitor the level of our bank and other borrowings to ensure adequate utilisation of banking facilities and our compliance with loan covenants.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future plans and use of proceeds" in this prospectus.

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DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Raw materials primarily consist of plastic resins, metal parts, electronic parts, printed box, pigment and chemical materials. Work-in-progress mainly comprises semi-finished products. Finished goods represent our toy products ready to be sold. The following table sets forth the components of our inventories as at the dates indicated:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	31,962	22,716	27,902
Work-in-progress	21,937	25,438	36,306
Finished goods	46,499	44,156	44,201
Allowance for impairment of slow moving inventories	<u>(794)</u>	<u>(854)</u>	<u>(931)</u>
	<u>99,604</u>	<u>91,456</u>	<u>107,478</u>

Our balance of inventories decreased by HK\$8.1 million, or 8.1%, from HK\$99.6 million as at 30 April 2015 to HK\$91.5 million as at 30 April 2016, primarily as a result of decrease in the balance of our raw material attributable to the decrease in prices of plastic resins. Our balance of inventories increased by HK\$16.0 million, or 17.5%, from HK\$91.5 million as at 30 April 2016 to HK\$107.5 million as at 30 April 2017 mainly attributable to (i) an increase in raw materials of HK\$5.2 million due to increase in purchase of plastic resins before year end and (ii) an increase in work-in-progress of HK\$10.9 million due to our strategy to lower our production cost by streamlining the number of our production staff so that we had to produce and stock up more common parts during slack seasons in order to cope with our upcoming production peak season during May to August.

We adopt stringent inventory control and endeavour to maintain low inventory level required for our operations through effective inventory management. We also periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made against when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete. We manage our inventory levels principally based on the anticipated demand. As at 30 April 2015, 2016 and 2017, we have made allowance for impairment of slow moving inventories of HK\$0.8 million, HK\$0.9 million and HK\$0.9 million.

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The following table sets forth the turnover days of our inventories for the periods indicated.

	For the year ended 30 April		
	2015	2016	2017
Average inventory turnover days ⁽¹⁾	<u>98</u>	<u>111</u>	<u>136</u>

(1) Average inventory turnover days are derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by the number of days in the relevant period.

Our average inventory turnover days increased from 98 days in FY2015 to 111 days in FY2016, primarily due to a decrease in our sales orders during FY2016 while we still maintained our level of stocks for each categories of toys products to ensure in-time replenishment of orders to our major customers. Our average inventory turnover days further increased to 136 days in FY2017 due to the increase in our inventory level as at year end as discussed above.

We typically experience a relatively lower utilisation of inventories, in particular raw materials and work-in-progress, during the period between the end of our shipment peak season in October and the beginning of our production peak season in May in each year whereby we need to stock up raw materials and produce more common parts in advance to prepare for the upcoming production peak season. As at 31 August 2017, HK\$77.4 million or 72.1% of our inventories as at 30 April 2017 had been sold or utilised.

Trade and bills receivables

The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	<u>30,575</u>	<u>33,050</u>	<u>38,714</u>

The balances of our trade and bills receivables was relatively stable as at 30 April 2015, 2016 and 2017.

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Our Group's trading terms with our customers are mainly on credit, except for new customers or customers in certain less developed markets. Before accepting any new customers, our Group will apply an internal credit assessment policy to assess the potential customer's credit quality. The credit period ranges from 0 to 150 days. Our Group seeks to maintain strict control over our outstanding receivables to minimise the credit risk. We typically do not hold any collateral as security but we may request down payment from our customers.

Our management reviews our trade and bill receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, our management makes judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, our management makes judgements as to whether an impairment loss should be recorded as an expense. As at 30 April 2015, 2016 and 2017, respectively, no provision for individually impaired trade receivables were made.

The following table sets forth the aging analysis of our trade and bills receivables based on invoice date, as at the dates indicated:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 3 months	28,871	32,662	33,442
Over 3 months	<u>1,704</u>	<u>388</u>	<u>5,272</u>
 Total	 <u><u>30,575</u></u>	 <u><u>33,050</u></u>	 <u><u>38,714</u></u>

As at 30 April 2015, 2016 and 2017, trade and bills receivables of HK\$3.9 million, HK\$1.4 million and HK\$5.2 million, respectively, were past due but not impaired. These related to customers for whom there were no history of default and based on past experience, our Directors were of the view that no impairment allowance was necessary in respect of these overdue balances as there had not been significant change in credit quality of our customers and the balances were considered fully recoverable.

As at 31 August 2017, HK\$35.4 million or 91.5% of our trade and bills receivables outstanding as at 30 April 2017 were settled.

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The table below sets forth a summary of average turnover days of trade and bills receivables for the periods indicated:

	For the year ended 30 April		
	2015	2016	2017
Average turnover days of trade and bills receivables ⁽¹⁾	23	26	36

- (1) Average turnover days of trade and bills receivables are derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables for the relevant period by revenue and multiplying by the number of days in the relevant period.

Our average turnover days of trade and bills receivables increased from 23 days in FY2015 to 26 days for FY2016 mainly due to a longer credit terms extended to one of our major customers who is a reputable multinational mass market retailer in the U.S.. Our average turnover days of trade receivables further increased to 36 days for FY2017 attributable to delay in settlement by one of our major customers who is a reputable multinational mass market retailer in the U.S. and the extension of credit terms to a customer in Mexico. Such receivables in relation to delay in settlement by one of our major customers was subsequently settled in June 2017.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments mainly represent refundable subcontracting fee, prepaid listing expense and factored account receivables. During the Track Record Period, our Group entered into factoring arrangements with two banks for several customers on non-recourse basis. As invoice value factored on non-recourse basis were regarded as purchased by the banks, we consider that we have transferred the contractual rights to receive the cash flows of the trade receivables and therefore record the transfer as sales of trade receivables. Such factored trade receivables are accounted for as sales of trade receivables and derecognised upon transfer. The residual balance of factoring amount amounted to approximately HK\$1.1 million, HK\$0.8 million and HK\$0.7 million as at 30 April 2015, 2016 and 2017, respectively.

Our other receivables, deposits and prepayments decreased from HK\$7.2 million as at 30 April 2015 to HK\$3.5 million as at 30 April 2016 mainly due to decrease in refund of subcontracting fee partially offset by the recognition of prepaid listing expenses of HK\$1.2 million. Our other receivables, deposits and prepayments increased to HK\$8.9 million as at 30 April 2017 mainly attributable to (i) increase in prepaid listing expenses by HK\$2.9 million; and (ii) an increase in deposits of HK\$1.6 million paid for leasehold improvement in relation to renovation work in our factory.

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Trade and bills payables

The following table sets forth our trade and bill payables as at the dates indicated:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	21,576	22,681	18,139

Our trade and bills payables remained relatively stable at HK\$21.6 million and HK\$22.7 million as at 30 April 2015 and 2016, respectively. Our trade and bills payable decreased to HK\$18.1 million as at 30 April 2017 because we were able to obtain bulk purchase discount from our suppliers in the period.

Our suppliers generally offer us trade credit periods from 0 to 90 days. The table below sets forth the aging analysis of our trade payables based on invoice date as at the dates indicated:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 3 months	21,317	21,713	17,423
Over 3 months	259	968	716
Total	21,576	22,681	18,139

The following table sets forth the average trade and bills payables turnover days for the Track Record Period:

	For the year ended 30 April		
	2015	2016	2017
Average turnover days of trade and bills payables ⁽¹⁾	28	26	28

(1) Average turnover days of trade and bills payables are derived by dividing the arithmetic mean of the opening and closing balances of trade and bills payables for the relevant period by cost of sales and multiplying the resulting value by the number of days in the relevant period.

Our average turnover days of trade and bills payables remained relatively stable at 28 days, 26 days and 28 days in FY2015, FY2016 and FY2017, respectively.

As at 31 August 2017, HK\$17.6 million or 97.0% of trade and bills payables outstanding as at 30 April 2017 were settled.

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Accruals and other payables

Our accruals and other payables increased from HK\$61.1 million as at 30 April 2015 to HK\$63.7 million as at 30 April 2016 mainly due to the recognition of accrued listing expenses of HK\$3.7 million. Our accrued expenses and other payables decreased to HK\$52.8 million as at 30 April 2017 was mainly attributable to (i) a decrease in the provision for employees' benefits of HK\$6.2 million comprising a reversal of provision for social insurance fund and housing provident fund of HK\$1.7 million and HK\$3.9 million respectively; and (ii) a decrease in accrued staff costs by HK\$3.0 million due to decrease in the average total number of staff by 13.7%.

Loan due from/to a shareholder classified as financial assets/liabilities at fair value through profit or loss and derivative financial instruments

During the Track Record Period, our Group entered into certain structured currencies forward contracts (the "**Currencies Forward**") with banks at the instruction of the Lo's Family. The Lo's Family undertook to receive from or pay to our Group for the gain or loss arising from the Currencies Forward respectively. Gain or loss on the Currencies Forward are virtually transferred and borne by the Lo's Family. Such arrangement established another loan with one of the shareholders, on behalf of the Lo's Family, of symmetrical terms to the Currencies Forward.

Accordingly, our Group recognised corresponding derivative financial assets/liabilities pursuant to the Currencies Forward, and at the same time recognised loan due from/to a shareholder classified as financial assets/liabilities at fair value through profit or loss. The changes in fair values of the derivative financial asset/liabilities from Currencies Forward and the amounts due from/to a shareholder classified as financial assets/liabilities at fair value through profit or loss are recognised in profit or loss separately. Our Group has performed fair value assessment on the Currencies Forward and the loan due from a shareholder classified as financial assets/liabilities at fair value through profit or loss separately. For FY2015 and FY2016, the fair value changes arising from these financial instruments coincidentally set off and had no net impact to the profit and loss of our Group.

The fair values of these Currencies Forward were classified as a non-current asset or liability if the remaining maturities of the forward contract were more than 12 months and, as a current asset or liability if the maturity of the forward contracts were less than 12 months.

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The Currencies Forward has been matured and fully settled during FY2016. As at Latest Practicable Date, based on the present business requirement, our Directors confirm that the Group has no current intention to enter into structured currencies forward contract in the near future. The Directors will closely monitor our Group's currency exposure and will consider to adopt a hedging policy if the need arises.

Amounts due from/to related companies and shareholders

Our amounts due from/to related companies mainly arisen from cash advances to the Lo's family, dividend payable, and related party transactions between our Group and the related companies during the Track Record Period.

Our amounts due from/to related companies and shareholders were non-interest bearing, except for the amounts of HK\$72.6 million and HK\$10.3 million due from a related company as at 30 April 2015 and 2016 which carried interest rate of 3.67% and 5.25% per annum, respectively.

Except for the amounts due from/to a shareholder in connection with the Currencies Forward which were due upon maturity or termination of the Currencies Forward, the amount due from/to shareholders and related companies were unsecured and repayable on demand. For further details of related party transactions and balances, please refer to note 35 of section II of the Accountant's Report in Appendix I to this prospectus.

All amounts due from/to related companies and shareholders will be settled prior to the Listing.

CAPITAL EXPENDITURES

Our Group's capital expenditures principally consisted of expenditures on leasehold improvements, acquisitions of plant and machinery, moulds work-in-progress and moulds in our operations. Our Group incurred capital expenditures of HK\$19.0 million, HK\$10.7 million and HK\$13.2 million, respectively, in FY2015, FY2016 and FY2017. For details, please refer to note 16 of section II of the Accountant's Report in Appendix I to this prospectus. Subsequent to the Track Record Period and up to the Latest Practicable Date, we did not make additional material capital expenditures.

PROPERTY INTERESTS

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer to our Company, has valued our property interests located in Dongguan, the PRC as at 31 May 2017. The texts of its letter, summary of values and valuation certificate are set out in Appendix III to this prospectus.

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The following table sets forth the reconciliation between the net book value of our property interests including prepaid operating lease, factories and buildings, and leasehold improvements as at 30 April 2017 and the valuation of relevant property interests as at 31 July 2017 as stated in the Property Valuation set forth in Appendix III to this prospectus:

	<i>HK\$'000</i>
Net book value as at 30 April 2017	69,929
Less: Depreciation and amortization for the period from 1 May 2017 to 31 July 2017	(1,342)
Add: Exchange difference	<u>337</u>
Net book value as at 31 July 2017	68,924
Valuation surplus	<u>3,187</u>
Reference value as at 31 July 2017 ⁽¹⁾	72,111
Less: Property interests without commercial value due to lack of title certificate or that was held under a leasehold arrangement	<u>(72,111)</u>
Valuation as at 31 July 2017	<u><u> </u>⁽²⁾</u>

Notes:

- (1) The reference value of the relevant property interests of HK\$72,111,000 comprised (i) property held and occupied by the Group which is based on valuation of RMB62,100,000 attributed by LCH (Asia-Pacific) Surveyors Limited as stated in note 10 to “Group I — Property held and occupied by the Group in the PRC and valued on market value basis” of the valuation certificate contained in the Property Valuation set forth in Appendix III to this prospectus, and converted to Hong Kong dollars at the rate of RMB1.00 to HK\$1.1612, as if the relevant title certificates were obtained and the property could be freely transferred as at 31 July 2017; and (ii) property held by the Group under a leasehold arrangement which had no commercial value as at 31 July 2017 as stated in “Group II — Property held by the Group under leasehold arrangement in the PRC” of the valuation certificate contained in the Property Valuation set forth in Appendix III to this prospectus. The reference value is for information purpose only.

- (2) The relevant property interest is ascribed as no commercial value by LCH (Asia-Pacific) Surveyors Limited due to the lack of title certificates or because the relevant property was held under a leasehold arrangement. For more details, please see the Property Valuation set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of each reporting periods, our Group had commitments for future minimum lease payments in respect of office and warehouse locations under non-cancellable operating lease arrangements, which fall due as follows:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	6,611	6,443	6,258
Between 2 to 5 years	<u>538</u>	<u>6,519</u>	<u>480</u>
 Total	 <u><u>7,149</u></u>	 <u><u>12,962</u></u>	 <u><u>6,738</u></u>

Capital commitments

We had the following capital commitments, which were not provided for in our consolidated financial statements:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for:			
— Land use right	—	—	24,784
Contracted, but not provided for:			
— Leasehold improvement	<u>—</u>	<u>—</u>	<u>1,747</u>

FINANCIAL INFORMATION

INDEBTEDNESS

The following table sets out our total debts as at the dates indicated:

	As at 30 April			As at
	2015	2016	2017	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>
Bank borrowings				
Bank overdraft	43,860	37,061	6,675	907
Bank borrowings, secured	<u>67,381</u>	<u>82,983</u>	<u>167,335</u>	<u>184,795</u>
	111,241	120,044	174,010	185,702
Amounts due to related companies	38,635	38,490	—	—
Amounts due to shareholders	<u>13,758</u>	<u>6,416</u>	<u>—</u>	<u>—</u>
Total indebtedness	<u><u>163,634</u></u>	<u><u>164,950</u></u>	<u><u>174,010</u></u>	<u><u>185,702</u></u>

The following table sets forth the repayment schedule of our bank borrowings as at the dates indicated based on repayment terms in the relevant loan agreements:

	As at 30 April			As at
	2015	2016	2017	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>
Within 1 year	111,241	117,044	134,262	150,990
Between 1 to 2 years	—	3,000	23,498	22,837
Between 2 to 5 years	<u>—</u>	<u>—</u>	<u>16,250</u>	<u>11,875</u>
	<u><u>111,241</u></u>	<u><u>120,044</u></u>	<u><u>174,010</u></u>	<u><u>185,702</u></u>

The following table sets out the weighted average effective interest rates for our borrowings as at the dates indicated:

	As at 30 April			As at
	2015	2016	2017	31 July
				<i>(Unaudited)</i>
Bank overdraft	5.29%	5.28%	5.29%	5.26%
Bank borrowing, secured	2.41%	2.87%	3.07%	3.11%

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The bank borrowings as at 30 April 2015, 2016 and 2017 of our Group were secured by properties belonged to our directors or related companies, personal guarantee and indemnity provided by our directors, pledge of properties owned by our related companies and corporate guarantee provided by our related companies. All such guarantees and pledge of properties will be released or replaced by corporate guarantees provided by our Company upon Listing.

Certain bank borrowings of our subsidiaries contain conditions and covenants that require us to obtain the bank's consents prior to certain activities and/or entering into certain transactions, such as change in beneficial ownership, pledge of assets or material disposal of assets. Some of our bank loans also contain requirements in respect of tangible net worth of our subsidiaries. Our Directors confirm that there had not been any delay or default in repayment of borrowings or material non-compliance with the covenants or requirements contained in our borrowings agreements that affect the renewal of such borrowings throughout the Track Record Period and up to the Latest Practicable Date. Our Directors do not expect that such covenants and requirements would materially restrict our Group's overall ability to undertake additional debt or equity financing.

Our bank overdraft amounted to HK\$43.9 million, HK\$37.1 million and HK\$6.7 million as at 30 April 2015, 2016 and 2017, respectively. Our Group utilise bank overdrafts during the production peak season in order to provide flexibility in meeting our Group's cash flow requirements. With a view to minimise the level and duration of bank overdrafts, our Group has secured more bank borrowings during FY2017, and accordingly our bank overdraft decreased to HK\$6.7 million in FY2017.

As at 31 July 2017, being the latest practicable date for the purpose of the indebtedness statement, we had aggregate banking facilities of HK\$391.1 million, of which HK\$193.1 million was unutilised. Our unutilised banking facilities as at 31 July 2017 comprised bank overdraft facilities of approximately HK\$64.3 million and trade-related facilities, such as trade receipt loan and issuance of letter of credit, of approximately HK\$128.8 million. We are not committed to draw down the unutilised amount. According to the latest terms of our banking facilities, our Directors anticipate that our Group's aggregated banking facilities will be reduced by approximately HK\$110.0 million subsequent to Listing.

During the Track Record Period, we did not experience any delay or default in repayment of bank borrowings nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us. As at the date of this prospectus, we did not have any plan for material external debt financing.

Contingent liabilities

As at 31 July 2017, being the latest practicable date for the purpose of the indebtedness statement, we had contingent liabilities in relation to irrecoverable standby letter of credit of HK\$3.6 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at 31 July 2017, our Group did not have any outstanding mortgage, charge, debenture or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

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OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

RELATED PARTIES TRANSACTIONS

With respect to the related party transactions set forth in note 35 to the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended 30 April		
	2015	2016	2017
Return on equity (%) ⁽¹⁾	21.3	18.8	13.8
Return on total assets (%) ⁽²⁾	7.3	7.4	5.2
Interest coverage ⁽³⁾	9.3	11.8	4.3
Cash conversion cycle (days) ⁽⁴⁾	93	112	144

	As at 30 April		
	2015	2016	2017
Current ratio ⁽⁵⁾	1.1	1.2	1.1
Gearing ratio (%) ⁽⁶⁾	91.7	89.8	120.9
Net debt to equity ratio (%) ⁽⁷⁾	83.0	81.5	115.4

Notes:

- (1) We calculated return on equity based on the net profit for the respective year divided by average balance of total equity attributable to the Shareholders (sum of opening and closing balance of the total equity attributable to the Shareholders as at the respective year divided by two) and multiplied by 100%.
- (2) We calculated return on total assets based on the net profit for the respective year divided by average balance of total assets (sum of opening and closing balances of the total assets of the respective years divided by two) and multiplied by 100%.
- (3) We calculated interest coverage based on the profit before interest and tax divided by interest expenses for the respective year.
- (4) We calculated cash conversion cycle by adding average inventory turnover days and average trade and bills receivables turnover days, and minus average trade and bills payables turnover days in the year.
- (5) We calculated current ratio based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.

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- (6) We calculated gearing ratio based on the total debt as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (7) We calculated net debt to equity ratio based on net debts (being total debt net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.

Return on equity

Our return on equity was 21.3%, 18.8% and 13.8% for FY2015, FY2016 and FY2017, respectively. Fluctuations in our return on equity primarily reflected changes in our profit for FY2015, FY2016 and FY2017.

Return on total assets

Our return on total assets was 7.3%, 7.4% and 5.2% for FY2015, FY2016 and FY2017, respectively. Our return on total assets for FY2015 and FY2016 remain stable. Decrease in our return on total assets for FY2017 was mainly attributable to our decrease in profit for the year and the acquisition of land use right of HK\$7.6 million during FY2017.

Interest coverage

Our interest coverage was 9.3, 11.8 and 4.3 for FY2015, FY2016 and FY2017, respectively. The increase in interest coverage in FY2016, compared to FY2015, was mainly due to improvement in our operating profit. The decrease in the interest coverage ratio in FY2017 was due to decrease in our operating profit.

Cash conversion cycle

Our cash conversion cycle was 93 days, 112 days and 144 days for FY2015, FY2016 and FY2017, respectively. The increase in cash conversion cycle in FY2016, compared to FY2015, was mainly due to the increase in our inventories as we maintained our level of stocks for each categories of toys products to ensure in-time replenishment of orders to our major customers despite our sales in the period slightly decreased. Our cash conversion cycle further increased in FY2017 as compared to FY2016 because of (i) the increase in our inventories as we increased our purchase of raw materials and production of work-in-progress to cope with the upcoming production peak season; and (ii) delay in settlement by one of our major customers who is a reputable multinational mass market retailer in the U.S. and the extension of credit terms to a customer in Mexico.

Current ratio

Our current ratio remained stable at 1.1, 1.2 and 1.1 as at 30 April 2015, 2016 and 2017, respectively.

Gearing ratio

Our gearing ratio was 91.7%, 89.8% and 120.9% as at 30 April 2015, 2016 and 2017, respectively. Our gearing ratio for FY2015 and FY2016 remained stable. The increase in the gearing ratio in FY2017 was due to (i) increase in our bank borrowings and (ii) decrease in our total equity as a result of dividend of HK\$60 million paid during the year.

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Net debt to equity ratio

Our net debt to equity ratio was 83.0%, 81.5% and 115.4% as at 30 April 2015, 2016 and 2017, respectively. Our net debt to equity ratio for FY2015 and FY2016 remained stable. The increase in net debt to equity ratio in FY2017 was due to (i) increase in our bank borrowings and (ii) decrease in our total equity as a result of dividend of HK\$60 million paid during the year.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity. See note 3 of section II in “Appendix I — Accountant’s Report” for details.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and other fees and expenses incurred in connection with the Global Offering and the Listing. Assuming an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be approximately HK\$33.4 million, of which approximately HK\$9.3 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity, and the remaining amount of approximately HK\$24.1 million has been or will be reflected in the consolidated statement of comprehensive income of our Group. Listing expenses of HK\$4.3 million and HK\$13.0 million in relation to services already performed by relevant parties, were reflected in our consolidated statement of comprehensive income for the FY2016 and FY2017, respectively, and HK\$6.8 million of additional listing expenses are expected to be recognised in the consolidated statement of comprehensive income of our Group subsequent to the Track Record Period. The listing expenses are subject to adjustment based on the actual amount incurred or to be incurred. Our results of operations subsequent to the Track Record Period may be adversely affected by the listing expenses we incurred in the period.

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. The dividend declared and paid by Kiddieland Industrial to its then shareholders was HK\$22.0 million, HK\$27.0 million and HK\$60.0 million for FY2015, FY2016 and FY2017, respectively. The dividend declared in FY2017 was settled by way of offsetting the amount due from a related company as designated by the then shareholders of Kiddieland Industrial. We currently intend to declare an additional dividend of HK\$100.0 million prior to the Listing and a substantial portion of which will be settled by way of offsetting our amounts due from a related company, and the remaining portion will be settled by our internal resources prior to the Listing.

Our Directors intend to recommend dividends which would amount in total to not less than 30% of the net distributable profit of the Group starting from the financial year ending 30 April 2018 but will be subject to the discretion of our Board and the approval of our Shareholders after taking into account our

FINANCIAL INFORMATION

operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC operating subsidiaries may also be subject to any restrictive covenant in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 3 June 2016 and is an investment holding company and had no reserves available for distribution to the Shareholders as at 30 April 2017. As at 30 April 2017, our Group had retained earnings of HK\$147.2 million available for distribution.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please see the section "Unaudited pro forma financial information" in Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

NO MATERIAL ADVERSE CHANGE

As far as we are aware, there was no material change in the general economic, market and regulatory conditions in our industry that had materially and adversely affected our business operations, results of operations, or financial condition since 30 April 2017 and up to the date of this prospectus. Our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our business operations, results of operations, or financial condition since 30 April 2017, being the date to which our latest audited financial information was prepared.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the paragraph headed “Business — Our Strategies” in this prospectus for details of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.45 per Offer Share, being the mid-point of the indicative Offer Price range, will be approximately HK\$79.1 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply the net proceeds in the following manner:

- approximately HK\$41.0 million or approximately 51.8% of the net proceeds for the diversification of our product offerings by developing new products and further entering into licensing arrangements with various reputable entertainment properties licensors;
- approximately HK\$21.5 million or approximately 27.2% of the net proceeds will be used as funds for strengthening sales and marketing of our co-branded products and **KIDDIELAND** branded products;
- approximately HK\$7.5 million or approximately 9.5% of the net proceeds for replacing and upgrading our injection moulding machines as well as setting up of a new fabrication line to further improve our production efficiency and capabilities. It is expected that approximately HK\$5.9 million or approximately 7.5% of the net proceeds will be used for acquiring machinery; and approximately HK\$1.6 million or approximately 2.0% of the net proceeds will be used for upgrading existing machinery; and
- approximately HK\$9.1 million or approximately 11.5% of the net proceeds for repair and maintenance of our factory and production tools and machinery.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$91.2 million or decrease to approximately HK\$67.0 million, respectively; and in such event, we intend to increase or decrease, respectively, the net proceeds to be used for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds will increase to approximately HK\$109.4 million, assuming an Offer Price of HK\$0.50 per Offer Share, being the high-end of the proposed Offer Price range. In such event, we intend to apply (i) approximately HK\$51.8 million, or 47.3%, for diversification of our product offerings; (ii) approximately HK\$27.2 million, or 24.9%, for strengthening sales and marketing efforts; (iii) approximately HK\$9.5 million, or 8.7%, for replacement and upgrading of our production machinery; (iv) approximately HK\$11.5 million, or 10.5%, for repair and maintenance of our factory and production tools and machinery; and (v) the remainder of approximately HK\$9.4 million, or 8.6%, for our general working capital.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not sufficient to fund the purposes as set forth above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowings, as appropriate. Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we may hold such funds in short term demand deposits with banks in Hong Kong and/or through money market instruments.

UNDERWRITING

SOLE GLOBAL COORDINATOR AND SOLE BOOKRUNNER

Huajin Securities (International) Limited

HONG KONG UNDERWRITER

Huajin Securities (International) Limited

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 25,000,000 Hong Kong Offer Shares and the International Placing of initially 225,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure and conditions of the Global Offering” in this prospectus as well as to the Over-allotment Option in the case of the International Placing.

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter on a conditional basis. The International Placing is expected to be fully underwritten by the International Underwriter(s). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, our Company is offering 25,000,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including an additional 37,500,000 Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement,

the Hong Kong Underwriter has agreed to subscribe for, or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and conditions set out in this prospectus, the

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Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriter to subscribe for, or to procure subscribers for, the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement is subject to termination by notice in writing to our Company from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) if at or prior to 8:00 a.m. on the Listing Date:

- (i) that any statement contained in this prospectus, the Application Forms, the formal notice (collectively, the “**Offer Document**”) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to this Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the Warrantors pursuant to the indemnity clause in the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or

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- (vi) any material breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the Warranties; or
- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
- (ix) any person (other than the Hong Kong Underwriter) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that, other than the deregistration of DG Kiddieland Factory, a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of our Directors and senior management members of our Group as set out in the section headed “Directors and senior management” of this prospectus; or
- (xii) a portion of the orders in the bookbuilding process, which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (xiii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Underwriters) in its sole and absolute opinion to be material; or
- (xiv) there shall develop, occur, exist or come into effect:
 - (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation

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of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or

- (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new laws, or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, the Cayman Islands, the BVI, the European Union (or any member thereof), England and Wales, U.S. or any other jurisdictions relevant to any member of our Group or the Global Offering (the “**Specific Jurisdictions**”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in our Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or

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- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group or any of the Warrantors; or
- (x) any of our Directors and senior management members of our Company as set out in the section headed “Directors and senior management” of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) our chairman or chief executive officer of our Company vacating his office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other laws applicable to the Global Offering; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Shares under the Over-allotment Option pursuant to the terms of the Global Offering; or
- (xv) non-compliance by our Company of the Prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to the Prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC;
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our member of our Group is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

- (a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Company or the Group or any member of our Group or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or

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- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to any lending of Shares by KLH Capital pursuant to the Stock Borrowing Agreement, he or she or it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his or her or its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he or she or it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it would cease to be the controlling shareholder of our Company.

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Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his or her or its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, he or she or it will:

- (i) when he or she or it pledges or charges any Shares beneficially owned by him or her or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he or she or it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

We have undertaken to each of the Sole Sponsor, Sole Global Coordinator, Sole Bookrunner, Sole Lead Manager and the Hong Kong Underwriter that we will not, and will procure each member of our Group not to, except as permissible under Rule 10.08 of the Listing Rules, or except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the exercise of any options granted or to be granted under the Share Option Scheme, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) unless in compliance with the Listing Rules, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date falling six months after the Listing Date (the “**First Six-Month Period**”):

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any securities of our Company or any shares or securities of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable; or

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- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, or
- (e) in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period); our Company will not, and will procure each member of our Group not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”), we enter into any such transactions specified in (a), (b) or (c) above or offers or agree or contract to, or publicly announce an intention to, enter into any such transactions, our Company will take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders hereby jointly and severally undertakes to each of the Sole Sponsor, the Sole Global Coordinator, our Company, the Stock Exchange, the Sole Bookrunner, Sole Lead Manager and the Hong Kong Underwriter that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

- (i) at any time during the First Six-Month Period, it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any

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Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depositary receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company; (iii) in the event that it enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it shall take all reasonable steps to ensure that it will not create a disorderly or false market for any Shares or other securities of our Company; and (iv) it shall, and shall procure that the relevant registered holder(s) of the Relevant Securities and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of our Controlling Shareholders further undertakes to each of the Sole Sponsor, our Company, the Sole Global Coordinator, the Stock Exchange, the Sole Lead Manager, the Sole Bookrunner, and the Hong Kong Underwriter that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it will:

- (i) when it pledges or charges any securities or interests in the relevant securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

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- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Hong Kong Underwriter's Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, as at the Latest Practicable Date, the Hong Kong Underwriter was not interested legally or beneficially, directly or indirectly in any shares or securities in our Company or any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriter and its affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

International Placing

International Underwriting Agreement

In connection with the International Placing, our Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with, among others, the International Underwriter(s). Under the International Underwriting Agreement, the International Underwriter(s) would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Placing. Please refer to the section headed “Structure and conditions of the Global Offering — The International Placing” in this prospectus for further details.

Over-allotment Option

Our Company expects to grant to the International Underwriter(s), exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriter(s)), the Over-allotment Option which will be exercisable in whole or in part as one or more times from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 37,500,000 additional Shares, representing no more than 15% of the number of Offer Shares initially available to the Global Offering at the Offer Price, to cover over-allocations in the International Placing, if any.

Commissions and Expenses

We will pay the Sole Global Coordinator (for itself and on behalf of the other Underwriters) an underwriting commission of 3.0% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an

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underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriter(s), but not the Hong Kong Underwriter.

Assuming that the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.40 to HK\$0.50 per Offer Share), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK\$33.4 million in total payable by us.

Indemnity

We and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriter for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriter of the Hong Kong Public Offering and the International Placing (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

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All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure and conditions of the Global Offering — Stabilisation” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that, when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- (i) the Hong Kong Public Offering of an initial 25,000,000 Hong Kong Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed “Structure and Conditions of the Global Offering — The Hong Kong Public Offering” in this section; and
- (ii) the International Placing of an initial 225,000,000 International Offer Shares, subject to reallocation as mentioned below, outside the U.S. (including to professional investors within Hong Kong) in offshore transactions in reliance on Regulation S or pursuant to another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but cannot do both. Our Directors and the Sole Global Coordinator will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offering and the International Placing which are not allowed and are bound to be rejected. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional and institutional investors expected to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the U.S. in reliance on Regulation S. The International Underwriter(s) are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the Price Determination Date.

The number of Shares to be offered under the Hong Kong Public Offering and the International Placing may be subject to reallocation as described in the paragraph headed “Structure and Conditions of the Global Offering — Pricing and allocation” in this section.

References in this prospectus to applications, Application Forms, application monies or the procedure for application refer solely to the Hong Kong Public Offering.

PRICING AND ALLOCATION

Pricing

The Offer Price is expected to be fixed by an agreement between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 15 September 2017 and in any event no later than Wednesday, 20 September 2017 and the Offer Shares are expected to be allocated shortly thereafter. If for any reason, we and the Sole Global Coordinator (for itself and on behalf of the other Underwriters) are unable to reach agreement on the Offer Price, the Global Offering will not proceed and will lapse.

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The Offer Price will be not more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

Reduction in offer price range and/or number of Offer Shares

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) consider the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer on 14 September 2017, cause to be published at our website at www.kiddieland.com.hk and the website of the Stock Exchange at www.hkexnews.hk, notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such announcement and supplemental prospectus shall also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus. The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Placing Shares under the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

relevant sector, and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional, or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole. Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by applicants. The allocation of the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocations of the Hong Kong Offer Shares, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to apply for the Hong Kong Offer Shares — 11. Publication of results” in this prospectus.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of our Offer Shares pursuant to the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation may be made to professional and institutional investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number or Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Offer Price and Basis of Allocations

The Offer Price under the Global Offering, the level of indications of interest in the International Placing, and the level of applications and the results of and basis of allocations under the Hong Kong Public Offering are expected to be announced on Wednesday, 20 September 2017 on our website (www.kiddieland.com.hk) (in English and Chinese) and on the Stock Exchange’s website

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

(www.hkexnews.hk) and in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of Results” in this prospectus. You should note that our website, and all information contained in our website, does not form part of this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to reallocation), and such listing and permission not subsequently having been revoked prior to commencement of dealing in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriter under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator (on behalf of the other Underwriters)) and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If for any reason the Offer Price is not agreed by Wednesday, 20 September 2017 between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), the Global Offering will not proceed and will lapse. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us on our website (www.kiddieland.com.hk) (in English and Chinese) and on the Stock Exchange’s website (www.hkexnews.hk) on the next day following such lapse. In such case, all application monies will be returned to the applicants, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Share certificates for the Hong Kong Offer Shares are expected to be issued on Wednesday, 20 September 2017 but will only become valid certificates of title at 8:00 a.m. on Thursday, 21 September 2017, the date of commencement of dealings in the Shares, provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

We are initially offering 25,000,000 Hong Kong Offer Shares at the Offer Price, representing 10% of the 250,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 25% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form or applying online through **HK eIPO White Form** service or the **electronic application instruction** to HKSCC submitted by him or her, that he or she, and any person(s) for whose benefit he or she is making the application (if any), have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offer Shares, and such applicant's application will be rejected if this undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

The Sole Global Coordinator, on behalf of the other Underwriters, may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that he or she is excluded from any application for Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$0.50 on each Hong Kong Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% the Stock Exchange trading fee on each Hong Kong Offer Share. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$0.50 per Offer Share, being the maximum Offer Price, we will refund the respective difference

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

(including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

Allocation

The total number of Offer Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation and clawback referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B (subject to adjustment of odd lot size). The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5.0 million (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5.0 million (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) and up to the value of pool B. For this purpose, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, in relation to both pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications within either pool or between pools and any application for more than 12,500,000 Hong Kong Offer Shares, being 50% of the Hong Kong Public Offering Shares initially being offered for subscription under the Hong Kong Public Offering, will be rejected.

Reallocation and Clawback

The allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 75,000,000, 100,000,000 and 125,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)),

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Shares will be allocated to pool A and pool B.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate.

In addition, the Sole Global Coordinator may, in their sole discretion, allocate Offer Shares from the International Placing to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may be reallocated as between these offerings at the discretion of the Sole Global Coordinator. If either the Hong Kong Public Offering or the International Placing is not fully subscribed, the Sole Global Coordinator has the authority to re-allocate any or all subscribed Offer Shares from such offering to the other in such proportions as the Sole Global Coordinator deems appropriate.

Details of any re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing will be disclosed in the result announcement of the Global Offering, which is expected to be published on Wednesday, 20 September 2017.

THE INTERNATIONAL PLACING

The International Placing will consist of initially 225,000,000 Shares and is subject to reallocation and the Over-allotment Option, to be offered outside the United States (within the meaning of Regulation S under the U.S. Securities Act) in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong. The International Placing will be subject to, among other matters, the Hong Kong Public Offering becoming unconditional.

Pursuant to the International Placing, the International Underwriter(s) will conditionally place our Shares with institutional and professional investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Structure and Conditions of the Global Offering — Pricing and allocation” in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company intends to grant the Over-allotment Option to the International Underwriter(s), exercisable by the Sole Global Coordinator on behalf of the International Underwriter(s).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriter(s) will have the right, exercisable by the Sole Global Coordinator at any time during the 30-day period from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to an aggregate of 37,500,000 Shares, representing 15% of the initial number of the Offer Shares, at the Offer Price, under the International Offering to cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the other Underwriters, subject to the size of the Global Offering being not less than HK\$100 million, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Huajin Securities (International) Limited has been appointed as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong).

Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilising activity is required to be brought to an end within 30 days from the last day for lodging application under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 37,500,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period to cover such over-allocation by (among other methods) making purchases in the secondary market, selling Shares to liquidate a position held as a result of those purchases, exercising the Over-allotment Option in full or in part, stock borrowing or by any combination of any of the foregoing.

The possible stabilising action which may be taken by the Stabilising Manager, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of Shares; (ii) establishing, hedging and liquidating positions in Shares; (iii) exercising the Over-allotment Option in whole or in part; (iv) stock borrowing; and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of our Shares, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of any security (including our Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to enter into an agreement with KLH Capital, to borrow, whether on its own or through its affiliates, up to 37,500,000 Shares, representing 15% of the total number of the Offer Shares initially available for the Global Offering. The stock borrowing arrangement under such an agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

- such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from KLH Capital by the Stabilising Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to KLH Capital or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- no payment will be made to KLH Capital by the Stabilising Manager (or any person acting for it) in relation to such stock borrowing arrangement.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the other Underwriters) and us on the Price Determination Date.

We expect that we will, on or around the Price Determination Date, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing. The underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 21 September 2017, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, 21 September 2017. Our Shares will be traded in board lots of 5,000 Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 11 September 2017 to 12:00 noon on Thursday, 14 September 2017 from:

- (i) the following office of the Hong Kong Underwriter:

Huajin Securities (International) Limited
Suite 1101, 11/F,
Champion Tower,
3 Garden Road, Central,
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the branches of **DBS Bank (Hong Kong) Limited**:

	Branch name	Address
Hong Kong Island	United Centre Branch	Shops 1015–1018 on 1/F & Shops 2032–2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Happy Valley Branch	G/F, 18A–22 King Kwong Street, Happy Valley
	North Point Branch	G/F, 391 King’s Road, North Point
Kowloon	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building, 574–576 Nathan Road, Mongkok
	Canton Road — DBS Treasures Centre	G/F, Hanley House, 68 Canton Road, Tsimshatsui
	San Po Kong — SME Banking Centre	Unit 01 & 02, G/F, Winning Centre, 29 Tai Yau Street, San Po Kong
	Kowloon Bay — SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
New Territories	Tuen Mun Town Plaza — SME Banking Centre	Shop 23, G/F, Tuen Mun Town Plaza (II), 3 Tuen Lung Street, Tuen Mun

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 11 September 2017 until 12:00 noon on Thursday, 14 September 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker’s cashier order attached and marked payable to “**Ting Hong Nominees Limited — Kiddieland International Public Offer**” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- 9:00 a.m. to 5:00 p.m., Monday, 11 September 2017
- 9:00 a.m. to 5:00 p.m., Tuesday, 12 September 2017
- 9:00 a.m. to 5:00 p.m., Wednesday, 13 September 2017

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 9:00 a.m. to 12:00 noon, Thursday, 14 September 2017

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 14 September 2017, the last application day or such later time as described in the paragraph headed “How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the applications lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

YELLOW Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “2. Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website at www.hkeipo.hk. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 11 September 2017 until 11:30 a.m. on Thursday, 14 September 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 14 September 2017 or such later time under the paragraph headed “How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place,
Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - **undertake** and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
 - (if **electronic application instructions** are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - **confirm** that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **agree** that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- **agree** to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- **agree** that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- 9:00 a.m. to 8:30 p.m.,⁽¹⁾ Monday, 11 September 2017
- 8:00 a.m. to 8:30 p.m.,⁽¹⁾ Tuesday, 12 September 2017
- 8:00 a.m. to 8:30 p.m.,⁽¹⁾ Wednesday, 13 September 2017
- 8:00 a.m.⁽¹⁾ to 12:00 noon, Thursday, 14 September 2017

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 11 September 2017 until 12:00 noon on Thursday, 14 September 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 14 September 2017, the last application day or such later time as described in the paragraph headed “How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 14 September 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and conditions of the Global Offering — Pricing and allocation” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 14 September 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 14 September 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 20 September 2017 on our Company’s website at www.kiddieland.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.kiddieland.com.hk and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 20 September 2017;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 20 September 2017 to 12:00 midnight p.m. on Tuesday, 26 September 2017;
- by telephone enquiry line by calling +852 3691-8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 20 September 2017 to Monday, 25 September 2017 (on a Business Day);
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 20 September 2017 to Monday, 25 September 2017 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure and conditions of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 20 September 2017.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 20 September 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 September 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 20 September 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 20 September 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 20 September 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 20 September 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 September 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 20 September 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 20 September 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, 20 September 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 20 September 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 20 September 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 20 September 2017.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KIDDIELAND INTERNATIONAL LIMITED AND WAG WORLDSEC CORPORATE FINANCE LIMITED

Introduction

We report on the historical financial information of Kiddieland International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-63, which comprises the consolidated balance sheets as at 30 April 2015, 2016 and 2017, the company balance sheet as at 30 April 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flows statements for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-63 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 11 September 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 30 April 2017 and the consolidated financial position of the Group as at 30 April 2015, 2016 and 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which contains information about the dividends paid by Kiddieland International Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
11 September 2017

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Note	Year ended 30 April		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Revenue	5	520,966	445,756	367,146
Cost of sales	8	<u>(394,762)</u>	<u>(314,740)</u>	<u>(266,682)</u>
Gross profit		126,204	131,016	100,464
Other income	6	1,980	1,144	893
Other gains, net	7	596	189	290
Selling and distribution expenses	8	<u>(39,998)</u>	<u>(40,612)</u>	<u>(28,392)</u>
Administrative expenses	8	<u>(40,251)</u>	<u>(40,960)</u>	<u>(47,895)</u>
Operating profit		48,531	50,777	25,360
Finance income		2,837	1,149	18
Finance expenses		<u>(5,192)</u>	<u>(4,315)</u>	<u>(5,904)</u>
Finance costs, net	9	<u>(2,355)</u>	<u>(3,166)</u>	<u>(5,886)</u>
Profit before taxation		46,176	47,611	19,474
Income tax (expenses)/credits	10	<u>(9,644)</u>	<u>(13,586)</u>	<u>3,110</u>
Profit for the year		36,532	34,025	22,584
Other comprehensive income/(loss) for the year				
<i>Item that may be reclassified to profit or loss:</i>				
Currency translation difference		<u>15</u>	<u>(1,798)</u>	<u>(2,283)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>15</u>	<u>(1,798)</u>	<u>(2,283)</u>
Total comprehensive income for the year		<u>36,547</u>	<u>32,227</u>	<u>20,301</u>
Basic and diluted earnings per share (HK dollars)	14	<u>3,653.2</u>	<u>3,402.5</u>	<u>2,258.4</u>

Consolidated Balance Sheets

	Note	As at 30 April		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
ASSETS				
Non-current assets				
Prepaid operating lease	15	5,639	5,487	12,896
Property, plant and equipment	16	124,843	109,351	100,221
Intangible assets	17	25,709	29,145	29,009
Deferred income tax assets	27	4,585	4,072	3,737
Prepayment	21	—	—	1,637
		<u>160,776</u>	<u>148,055</u>	<u>147,500</u>
Current assets				
Inventories	19	99,604	91,456	107,478
Trade and bills receivables	20	30,575	33,050	38,714
Other receivables, deposits and prepayments	21	7,154	3,498	7,218
Amounts due from related companies	22	125,631	164,739	90,194
Amounts due from shareholders	22	7,252	7,252	169
Loan due from a shareholder classified as financial assets at fair value through profit or loss	23	14,584	—	—
Income tax recoverable		—	53	2,962
Cash and bank balances	24	<u>15,516</u>	<u>15,223</u>	<u>7,878</u>
		<u>300,316</u>	<u>315,271</u>	<u>254,613</u>
Total assets		<u><u>461,092</u></u>	<u><u>463,326</u></u>	<u><u>402,113</u></u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	25	—	—	1
Other reserves	26	46	46	45
Exchange reserves	26	771	(1,027)	(3,310)
Retained earnings	26	<u>177,587</u>	<u>184,612</u>	<u>147,196</u>
Total equity		<u>178,404</u>	<u>183,631</u>	<u>143,932</u>

	<i>Note</i>	As at 30 April		
		2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
LIABILITIES				
Non-current liabilities				
Bank borrowings	28	—	—	13,000
Deferred income tax liabilities	27	10,059	7,940	3,776
Other payables	30	<u>5,588</u>	<u>9,837</u>	<u>10,549</u>
		<u>15,647</u>	<u>17,777</u>	<u>27,325</u>
Current liabilities				
Bank borrowings	28	111,241	120,044	161,010
Trade and bills payables	29	21,576	22,681	18,139
Accruals and other payables	30	55,517	53,854	42,232
Amounts due to related companies	22	38,635	38,490	—
Amounts due to shareholders	22	13,758	6,416	—
Derivative financial instruments	23	14,584	—	—
Income tax payable		<u>11,730</u>	<u>20,433</u>	<u>9,475</u>
		<u>267,041</u>	<u>261,918</u>	<u>230,856</u>
Total liabilities		<u>282,688</u>	<u>279,695</u>	<u>258,181</u>
Total equity and liabilities		<u>461,092</u>	<u>463,326</u>	<u>402,113</u>

Balance Sheet

	<i>Note</i>	As at 30 April 2017 HK\$'000
ASSETS		
Non-current asset		
Investment in a subsidiary	18	<u>152,392</u>
Current asset		
Prepayments	21	<u>4,985</u>
Total asset		<u><u>157,377</u></u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	25	1
Share premium	26	152,391
Accumulated losses		<u>(17,266)</u>
Total equity		<u><u>135,126</u></u>
LIABILITIES		
Non-current liability		
Amounts due to subsidiaries	22	<u>19,912</u>
Current liability		
Accruals	30	<u>2,339</u>
Total liabilities		<u><u>22,251</u></u>
Total equity and liabilities		<u><u>157,377</u></u>

Consolidated Statements of Changes in Equity

	Attributable to owners of the Company				Total HK\$'000
	Share capital HK\$'000 (note 25)	Other reserves HK\$'000 (note 26)	Exchange reserves HK\$'000 (note 26)	Retained earnings HK\$'000 (note 26)	
<u>For the year ended 30 April 2015</u>					
At 1 May 2014	—	46	756	163,055	163,857
Profit for the year	—	—	—	36,532	36,532
Other comprehensive income:					
— Currency translation difference	—	—	15	—	15
	—	—	15	—	15
Total comprehensive income	—	—	15	36,532	36,547
Transaction with owners:					
Dividends paid (note 13)	—	—	—	(22,000)	(22,000)
At 30 April 2015	—	46	771	177,587	178,404

	Attributable to owners of the Company				Total HK\$'000
	Share capital	Other reserves	Exchange reserves	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(note 25)	(note 26)	(note 26)	(note 26)	
<u>For the year ended 30 April 2016</u>					
At 1 May 2015	—	46	771	177,587	178,404
Profit for the year	—	—	—	34,025	34,025
Other comprehensive loss:					
— Currency translation difference	—	—	(1,798)	—	(1,798)
	—	—	(1,798)	—	(1,798)
Total comprehensive income	—	—	(1,798)	34,025	32,227
Transaction with owners:					
Dividends paid (note 13)	—	—	—	(27,000)	(27,000)
At 30 April 2016	—	46	(1,027)	184,612	183,631
<u>For the year ended 30 April 2017</u>					
At 1 May 2016	—	46	(1,027)	184,612	183,631
Profit for the year	—	—	—	22,584	22,584
Other comprehensive loss:					
— Currency translation difference	—	—	(2,283)	—	(2,283)
	—	—	(2,283)	—	(2,283)
Total comprehensive income	—	—	(2,283)	22,584	20,301
Transaction with owners:					
Issuance of ordinary share on date of incorporation (note 25)	—	—	—	—	—
Issuance of shares pursuant to the Reorganisation (note 25)	1	(1)	—	—	—
Dividends paid (note 13)	—	—	—	(60,000)	(60,000)
	1	(1)	—	(60,000)	(60,000)
At 30 April 2017	1	45	(3,310)	147,196	143,932

Consolidated Cash Flow Statements

	Note	Year ended 30 April		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Cash flows from operating activities				
Net cash generated from operations	31	86,026	110,598	30,456
Interest received		5	35	18
Interest paid		(5,176)	(4,531)	(5,340)
Income tax paid		(2,684)	(6,539)	(14,570)
Net cash generated from operating activities		<u>78,171</u>	<u>99,563</u>	<u>10,564</u>
Cash flows from investing activities				
Purchases of property, plant and equipment	16	(17,567)	(10,709)	(13,990)
Proceeds from disposal of property, plant and equipment		—	—	45
Payment for acquisition of land use right	15	—	—	(7,627)
Settlements of liabilities arising from acquisitions of licenses		(20,634)	(24,221)	(23,498)
Repayment from related companies		21,844	16,602	—
Advances to related companies		(28,479)	(52,887)	(23,812)
Net cash used in investing activities		<u>(44,836)</u>	<u>(71,215)</u>	<u>(68,882)</u>
Cash flows from financing activities				
Proceeds from bank borrowings		170,369	193,136	273,630
Repayment of bank borrowings		(185,470)	(177,534)	(189,278)
Dividend paid		(22,000)	(27,000)	—
Advance from related companies		4,609	1,325	—
Repayment to related companies		(5,201)	(2,759)	—
Repayment to shareholders		(5,032)	(7,342)	(169)
Listing costs paid (equity portion)		—	(871)	(2,559)
Net cash (used in)/generated from financing activities		<u>(42,725)</u>	<u>(21,045)</u>	<u>81,624</u>
Net (decrease)/increase in cash and cash equivalents		(9,390)	7,303	23,306
Effect on exchange rate difference		(42)	(797)	(265)
Cash and cash equivalents and bank overdrafts at beginning of the year	24	(18,912)	(28,344)	(21,838)
Cash and cash equivalents and bank overdrafts at end of the year	24	<u>(28,344)</u>	<u>(21,838)</u>	<u>1,203</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information, reorganisation and basis of presentation***1.1 General information*

Kiddieland International Limited (the “Company”) was incorporated in Cayman Islands on 3 June 2016 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plastic toys products (the “Toys Business” or the “Listing Business”).

The Listing Business was primarily carried out by Kiddieland Toys Limited, Kiddieland Industrial Limited, Kiddieland Toys Inc., Kiddieland Toy Limited, Innotech & Associates Limited and W. Great Worth Limited and the respective subsidiaries (collectively the “Operating Companies”) and was managed and owned by Mr. Lo Hung, Ms. Leung Siu Lin, Esther, Mr. Lo Shiu Kee, Kenneth, Ms. Lo Shiu, Shan Suzanne and Ms. Sin Lo Siu Wai, Sylvia (collectively the “Controlling shareholders”).

The ultimate holding company is KLH Capital Limited (“KLH Capital”), which is held as to 12.5% by Mr. Lo Hung, 12.5% by Ms. Leung Siu Lin, Esther, 25% by Mr. Lo Shiu Kee, Kenneth, 25% by Ms. Lo Shiu Shan, Suzanne and 25% by Ms. Sin Lo Siu Wai, Sylvia respectively.

1.2 Reorganisation

In preparation for the Listing, the Group underwent the reorganisation (the “Reorganisation”) to establish the Company as the ultimate holding company of the Listing Business which principally involved the following:

- (i) On 3 June 2016, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 consisting 3,800,000 shares. On the date of incorporation, 1 share was allotted and issued to KLH Capital.
- (ii) On 30 May 2016, Kiddieland Trading Limited (“BVI 1”), Kiddieland Manufacturing Limited (“BVI 2”) and Kiddieland Group Limited (“BVI 3”) were incorporated in the British Virgin Islands (the “BVI”) by Mr. Lo Hung. On the same date, 1 share of BVI 1, BVI 2 and BVI 3, respectively, was issued to Mr. Lo Hung. On 20 July 2016, 1 share of BVI 1 and BVI 2, respectively, was issued to Ms. Leung Siu Lin Esther.
- (iii) Pursuant to the respective sale and purchase agreements, the Controlling Shareholders sold all of their respective shareholding interests in Kiddieland Toys Limited, W. Great Worth Limited, Kiddieland Toys Inc. and Kiddieland Toy Limited to BVI 1, and all of their shareholding interests in Kiddieland Industrial Limited and Innotech Associates Limited to BVI 2. The consideration is settled by issue of 9,998 shares and 9,998 shares of BVI 1 and BVI 2, and cash consideration of HK\$300, in aggregate, to the Controlling Shareholders on 23 January 2017, respectively. Accordingly, Kiddieland Toys Limited, W. Great Worth Limited, Kiddieland Toys Inc. and Kiddieland Toy Limited became wholly owned subsidiary of BVI 1 and Kiddieland Industrial Limited and Innotech Associates Limited became wholly owned subsidiary of BVI 2.
- (iv) On 23 January 2017, the Controlling Shareholders and BVI 3 entered into a sale and purchase agreement, pursuant to which the Controlling Shareholders agreed to sell to BVI 3 all their respective shares in BVI 1 and BVI 2. In return, BVI 3 allotted and issued 9,999 shares to the Controlling Shareholders in aggregate.
- (v) On 23 January 2017, the Controlling Shareholders and the Company entered into a sale and purchase agreement, pursuant to which the Controlling Shareholders agreed to sell to the Company all their respective shares in BVI 3. In return, the Company allotted and issued 9,999 shares to KLH Capital.

Upon the completion of Reorganisation on 23 January 2017, the Company became the holding company of the other companies comprising the Group.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following principal subsidiaries:

Company name	Place of incorporation and kind of legal entity	Date of incorporation	Issued and paid up capital	Equity interest attributable to the Group held as at			The date of this report	Principal activities, place of operation	
				2015	30 April 2016	2017			
Directly owned:									
Kiddieland Group Limited	British Virgin Islands, limited liability company	30 May 2016	US\$10,000	N/A	N/A	100%	100%	Investment holding, Hong Kong	Note (i)
Indirectly owned:									
Kiddieland Trading Limited	British Virgin Islands, limited liability company	30 May 2016	US\$10,000	N/A	N/A	100%	100%	Investment holding, Hong Kong	Note (i)
Kiddieland Manufacturing Limited	British Virgin Islands, limited liability company	30 May 2016	US\$10,000	N/A	N/A	100%	100%	Investment holding, Hong Kong	Note (i)
Kiddieland Toys Limited	Hong Kong, limited liability company	7 May 2001	HK\$10,000	100%	100%	100%	100%	Sales and marketing of toys, Hong Kong	Note (ii)
Kiddieland Industrial Limited	Hong Kong, limited liability company	3 October 1997	HK\$10,000	100%	100%	100%	100%	Manufacturing and supplying of toys, Hong Kong	Note (ii)
W. Great Worth Limited	Hong Kong, limited liability company	30 May 1997	HK\$10,000	100%	100%	100%	100%	Provision of management services, Hong Kong	Note (ii)
Innotech & Associates Limited	Hong Kong, limited liability company	7 August 1998	HK\$10,000	100%	100%	100%	100%	Merchandising of production materials for toys and providing design services for all graphic design requirements in toys production, Hong Kong	Note (ii)
Dongguan Kiddieland Toys Co., Limited (“東莞童夢園玩具有限公司”)*	People's Republic of China (the “PRC”), limited liability company	18 June 2008	HK\$8,400,000	100%	100%	100%	100%	Conducting the sales of toys, the PRC	Note (iii)
Dongguan Kiddieland Industrial Co., Limited (“東莞童園實業有限公司”)* (“DG Kiddieland Industrial”)	The PRC, limited liability company	20 January 2014	HK\$54,000,000	100%	100%	100%	100%	Manufacturing of toys, the PRC	Note (iv)
Kiddieland Toy, Inc.	The United States of America (the “US”), limited liability company	8 June 1999	US\$600	100%	100%	100%	100%	Import and distribution of toy products, the US	Note (i)
Kiddieland Toy Limited	England and Wales, limited liability company	29 December 1999	GBP100	100%	100%	100%	100%	Representation office	Note (i)

* The English names of the above entities represent the best efforts of the management of the Company in translating their Chinese names as they do not have official English names.

Except for Dongguan Kiddieland Toys Co., Limited, Dongguan Kiddieland Industrial Co., Limited and Kiddieland Toy, Inc. which adopted 31 December as its financial year end date to fulfill local statutory requirement, all companies now comprising the Group have adopted 30 April as their financial year end date.

Notes:

- (i) No audited statutory financial statements have been issued for these companies as they are not required to issue audited financial statements under the statutory requirements of their places of incorporation.

- (ii) The statutory financial statements of these companies for the years ended 30 April 2015 and 2016 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.
- (iii) The statutory financial statements of this company for the years ended 31 December 2014, 2015 and 2016 were audited by Guangdong CCAT Certified Public Accountants Co., Ltd..
- (iv) The statutory financial statements of this company for the year ended 31 December 2014, 2015 and 2016 were audited by Guangdong Pennal Certified Public Accountants.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business has been conducted by the Operating Companies. Pursuant to the Reorganisation, the Listing Business were transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business conducted through the Operating Companies and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the Company and its subsidiaries, with the results, assets and liabilities recognised and measured at the carrying amounts of the Listing Business under the consolidated financial statements for all periods presented.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The Historical Financial Information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and loan due from a shareholder classified as financial assets at fair value through profit or loss, which are carried at fair value.

2.1 Basis of preparation

The accounting policies applied in the preparation of the Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and loan due from/(to) a shareholder classified as financial assets/liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

The following standards and amendments to existing standards have been published, but are not effective for the financial year beginning on 1 May 2016 and have not been early adopted by the Group:

HKAS 7 (Amendment)	Statement of cash flows ¹
HKAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses ¹
HKAS 40 (Amendment)	Transfer of Investment property ²
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions ²
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
HKFRS 9	Financial instruments ²
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture ⁴
HKFRS 15	Revenue from contracts with customers ²
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 ²
HKFRS 16	Lease ³
HK(IFRIC)-Int 22	Foreign currency translations and advance consideration ²

- 1 Effective for annual periods beginning on or after 1 January 2017
- 2 Effective for annual periods beginning on or after 1 January 2018
- 3 Effective for annual periods beginning on or after 1 January 2019
- 4 To be determined.

Except as disclosed below, the Group is in the process of commencing an assessment of the impact of these new standards, amendments and interpretations to the existing standards, but is not yet in a position to state whether these new standards, amendments and interpretations would have a significant impact on its results of operation and financial position.

HKFRS 15 Revenue

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an “earnings processes” to an “asset-liability” approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent commissions. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group does not plan to early adopt HKFRS 15. The Group assessed the impact of the adoption of HKFRS 15 by analysing the Group’s key revenue streams against the 5- step approach and does not expect the adoption would have a material impact to the Group’s results of operations and financial position.

HKFRS 9 Financial instruments

HKFRS 9, “Financial Instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Group assesses that adopting HKFRS 9 will not have a material impact to the Group's results of operations and financial position.

HKFRS 16 Lease

The Group is a lessee of certain offices which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in note 2.24, is to record the rental expenses in the Group's consolidated statements of comprehensive income for the current year with the related operating lease commitments. As at 30 April 2017, the Group's total non-cancellable operating lease commitments amount to HK\$6,738,000. HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated balance sheets. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in increase in right-of-use assets and increase in lease liabilities in the consolidated balance sheets. In the consolidated statements of comprehensive income, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right of use of assets and interest expense arising from the financial liabilities will increase. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results and financial position but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated balance sheet as right of use assets and lease liabilities. The new standard is not expected to apply until the financial year beginning on or after 1 May 2019.

2.2 Subsidiaries

Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combination

Except for the Reorganisation as described in note 1.2, the Group applies the acquisition method to account for business combinations other than business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Separate financial statements

Investment in a subsidiary is accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investment in a subsidiary is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is United States dollars ("US\$"). The consolidated financial statements are presented in HK\$ because the directors considered that the headquarter of the Group is located in Hong Kong.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income within "Other gains, net".

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the year in which they are incurred.

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

Factories and buildings	2% or over the remaining period of the lease
Leasehold improvements	10%
Plant and machinery	10%
Furniture and fixtures	20%
Office equipment	33%
Motor vehicles	33%
Moulds and tools	20%
Pleasure boat	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains, net' in the consolidated statements of comprehensive income.

2.6 Prepaid operating lease

Prepaid operating lease are stated at cost less accumulated amortisation. Cost represents consideration paid for the use of land on which various factories and buildings are situated for a period of 50 years. Amortisation of prepaid operating lease is calculated on a straight-line basis over the period of leases.

2.7 *Intangible assets*

Separately acquired licences are stated at the cost of minimum guaranteed license payments. The licences have finite useful lives and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of licences over the licence terms of 6 months to 3 years.

2.8 *Impairment of non-financial assets*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.9 *Financial assets*

Classification

The Group classifies its financial assets into two categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. The Group's financial assets at fair value through profit or loss comprises "derivative financial instruments" and "Loan due from/(to) a shareholder classified as financial assets at fair value through profit or loss" (note 23).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "other receivables and deposits", "amounts due from related companies", "amounts due from shareholders" and "cash and bank balances" in the consolidated balance sheets (notes 2.14 and 2.15).

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statements of comprehensive income within 'Other gains, net' in the year in which they arise.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit or loss.

Derivative financial assets are classified as current assets if they are expected to be realised within 12 months after the balance sheet date. Derivative financial liabilities are classified as current liabilities if they are due to be settled within 12 months after the balance sheet date.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated cash flows statements, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheets, bank overdrafts are shown within bank borrowings in current liabilities.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Borrowing costs

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

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the year in which they are incurred.

2.20 *Current and deferred income tax*

The tax expense for the years comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet dates and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 *Employee benefits*

Pension obligations

The Group participates in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions, on a mandatory, contractual or voluntary basis, into a separate entity. The scheme is generally funded through payments to insurance companies or state/trustee-

administered funds. The Group has no further payment obligations once the contributions have been paid. It has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet dates.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable, and represents amounts receivables for goods supplied, stated net of returns and discounts. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customers, type of transactions and the specifics of each arrangement.

Sales of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers, stated net of discounts, returns and value added taxes.

Management fee income

Management fee income is recognised when the service is rendered.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Sundry Income

Sundry income is recognised when Group's obligation is fulfilled and the right to receive payment is established.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the year in which the dividends are approved by the entities' shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest-rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures occasionally.

Foreign exchange risk

The Group mainly operates in Hong Kong, the PRC and the US with majority of the transactions settled in HK\$, Renminbi ("RMB") and United State dollars ("US\$"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the respective entities' functional currencies. Since HK\$ is pegged with US\$, management is of the opinion that the foreign exchange risk arising from US\$ is insignificant.

As at 30 April 2015, 2016 and 2017, certain of the Group's trade and other payables are denominated in RMB other than the functional currency of the operating unit. If HK\$ has strengthened/weakened by 5% against RMB, with all other variables held constant, the profit before income tax for the years would have been approximately HK\$743,000, HK\$133,000 and HK\$75,000 higher/lower, respectively.

Cash flow interest-rate risk

The Group has no significant interest-bearing assets except for bank deposits, details of which are disclosed in note 23. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which are disclosed in note 28. The bank borrowings that are carried at floating rates expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 30 April 2015, 2016 and 2017 if the interest rates on bank borrowings had been 50 basis points higher/lower, with all other variables held constant, the profit before income tax for the years/period would have been approximately HK\$556,000 and HK\$600,000 and HK\$870,000 lower/higher, mainly as a result of higher/lower interest expense on floating-rate borrowings.

Credit risk

The Group is exposed to credit risk in relation to its cash and bank balances, trade and bills receivables, other receivables and deposits, amounts due from related companies and amounts due from shareholders. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

The Group's cash at banks were deposited with high quality financial institutions. Therefore, the directors do not expect any losses arising from non-performance by these counterparties.

Trade and bills receivables, other receivables and deposits mainly represented the rental deposits, receivables from customers and related parties. They are assessed by reference to the historical information about counterparty default rates. As at 30 April 2015, the Group had HK\$14,584,000 due from a shareholder, resulted from the forward contracts with this shareholders of the Company (note 23). The Group exposes to credit risk if the shareholders are not able to settle the balances in full. The Group has reviewed the credit quality of this shareholder. The directors believe that the credit risk in relation to the loan due from a shareholder is minimal.

The Group has policies in place to ensure that the credit terms made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers, taking into account their financial position, past experience and other factors. The Group's credit sales are on credit terms ranged from 30 to 150 days. Normally the Group does not require collaterals from trade debtors. As at 30 April 2015, 2016 and 2017, the Group's top five debtors accounted for 59%, 45% and 52% of the Group's total trade receivables, respectively. The existing debtors have no significant default in the past. The directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of property, plant and equipment, and payment for purchases, operating expenses and dividend. The Group mainly finances its working capital requirements through internal resources and bank borrowings.

The Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors monitor the utilisation of bank and other borrowings to ensure adequate unutilised banking facilities and compliance with loan covenants.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interests payments computed using contractual rates, or if floating, based on the current rates at the year-end dates during the Track Record Period). Where the loan agreement contains a repayable on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment and no interest payments were included. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 April 2015					
Trade and bills payables	—	21,576	—	—	21,576
Accruals and other payables	—	14,501	—	—	14,501
Licenses liabilities	—	18,831	5,588	—	24,419
Bank borrowings	111,241	—	—	—	111,241
Amounts due to related companies	38,635	—	—	—	38,635
Amounts due to shareholders	13,758	—	—	—	13,758
Derivative financial instruments	—	14,584	—	—	14,584
	<u>163,634</u>	<u>69,492</u>	<u>5,588</u>	<u>—</u>	<u>238,714</u>

	On demand HK\$'000	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
As at 30 April 2016					
Trade and bills payables	—	22,681	—	—	22,681
Accruals and other payables	—	17,244	—	—	17,244
Licenses liabilities	—	16,173	9,837	—	26,010
Bank borrowings	120,044	—	—	—	120,044
Amounts due to related companies	38,490	—	—	—	38,490
Amounts due to shareholders	6,416	—	—	—	6,416
	<u>164,950</u>	<u>56,098</u>	<u>9,837</u>	<u>—</u>	<u>230,885</u>
As at 30 April 2017					
Trade and bills payables	—	18,139	—	—	18,139
Accruals and other payables	—	16,227	—	—	16,227
Licenses liabilities	—	15,035	10,549	—	25,584
Bank borrowings	156,010	5,620	8,448	5,146	175,224
	<u>156,010</u>	<u>55,021</u>	<u>18,997</u>	<u>5,146</u>	<u>235,174</u>

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “on demand” time band in the maturity analysis contained in the above table.

Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

**Maturity analysis — Bank borrowings subject to a repayment
on demand clause based on scheduled repayments**

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
As at 30 April 2015	113,922	—	—	113,922
As at 30 April 2016	119,715	3,175	—	122,890
As at 30 April 2017	<u>129,320</u>	<u>16,358</u>	<u>12,622</u>	<u>158,300</u>

3.2 Fair value estimation

The carrying amounts of the Group's financial assets comprises of derivative financial instruments cash and bank balances, trade and bills receivables, other receivables and deposits, amounts due from related companies and amounts due from shareholders; and financial liabilities comprises of derivative financial instruments, trade and bills payables, accruals and other payables, amounts due to related companies, amounts due to shareholders and bank borrowings. The financial assets and liabilities approximate their fair values due to their short maturities. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The carrying value of financial instruments measured at fair value at the balance sheet dates are categorised among the three levels of the fair value hierarchy defined in HKFRS 13, “Fair value Measurement”, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 April 2015				
Assets				
Loan due from a shareholder classified as financial liabilities at fair value through profit or loss (<i>note 23</i>)	—	14,584	—	14,584
Liabilities				
Derivative financial instruments	—	(14,584)	—	(14,584)

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Group adopts quoted market prices or dealer quotes for similar instruments and uses forward exchange rates at the end of reporting periods, with the resulting value discounted back to present value to determine the fair value of financial instruments.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets, plus net debt of the Group.

The gearing ratios at 30 April 2015, 2016 and 2017 were as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	111,241	120,044	174,010
Less: cash and bank balances	<u>(15,516)</u>	<u>(15,223)</u>	<u>(7,878)</u>
Net debts	95,725	104,821	166,132
Equity	<u>178,404</u>	<u>183,631</u>	<u>143,932</u>
Total capital	<u>274,129</u>	<u>288,452</u>	<u>310,064</u>
Gearing ratio	<u>34.9%</u>	<u>36.3%</u>	<u>53.6%</u>

The increase in the gearing ratio as at 30 April 2016 and 2017 are due to increase of bank borrowings during the years.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group make estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Current and deferred income tax

The Group is subject to income taxes in different jurisdictions. Judgement is required in determining the provision for income taxes in different jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group operates mainly in Hong Kong, the PRC and the US and has transactions with customers and suppliers in different countries. The Group's inter-company transactions and cross-border business arrangements during the ordinary course of business may impose inherent uncertainty over the Group's profit allocation and its respective tax position across different jurisdictions. The tax treatments of these transactions or arrangements may be subject to the interpretation by respective tax authorities in different countries. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax and income tax expense in the year in which such estimates is changed.

Allowance for impairment for slow-moving inventories

The Group assesses annually whether any allowance is required to reflect the carrying value of inventories, in accordance with the accounting policy stated in note 2.13. Net realisable values have been determined based on the estimated selling price in the ordinary course of business, less applicable variable selling expenses. This estimation require the use of judgement.

Useful lives and residual values of property, plant and equipment

Management estimates useful lives and residual values of its property, plant and equipment with reference to the Group's business model, its assets management policy, the industry practice, expected usage of assets, expected repair and maintenance, the technical or commercial obsolescence arising from changes or improvements in market. Depreciation expense would be significantly affected by the useful lives of the property, plant and equipment as estimated by management. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Leasehold improvements and factories and buildings on a leased land

The Group had a leased land in the PRC for an operating lease of 50 years where the Group's leasehold improvements and factories and buildings situated were without land and property ownership certificates. Without the certificates, the existing factories and buildings might be ordered for demolition or confiscated. The directors are of the opinion, based on the advice from the Group's external legal adviser, that the Group has proper right to the occupancy of the leased land and legal entitlement to the constructions thereon. It is unlikely to be terminated or interrupted or to have a material effect on the carrying amount of the related leaseholds improvements and factories and buildings of HK\$69,264,000, HK\$67,971,000, HK\$69,936,000 as at 30 April 2015, 2016 and 2017, respectively.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statements of comprehensive income.

Impairment of financial assets

The Group's management determines the allowance for impairment of financial assets based on an assessment of the recoverability of the financial assets. The amount is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the allowance for impairment at each balance sheet date.

Fair value of derivative financial instruments

The fair value of derivative financial instruments which are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at the balance sheet dates. The valuation models require the input of subjective assumptions, including forward foreign exchange rates, risk free rates and market volatility. Changes in subjective input assumptions can materially affect the fair value estimate.

5 Segment information

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the manufacturing and selling of plastic toys products. The chief operating decision-makers assess the performance of the Listing Business based on a measure of operating results and consider the Listing Business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — manufacturing and trading of plastic toys products.

The Group's revenue by geographical location, which is determined by the continent where the goods were delivered, is as follows:

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
America	260,070	230,880	172,031
Europe	197,559	161,594	158,960
Asia Pacific and Oceania	59,802	51,531	35,212
Africa	<u>3,535</u>	<u>1,751</u>	<u>943</u>
	<u>520,966</u>	<u>445,756</u>	<u>367,146</u>

The Group's non-current assets (excluding deferred income tax assets and intangible assets) by geographical location, which is determined by the city/country in which the asset is located, is as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,606	632	91
The PRC	<u>128,876</u>	<u>114,206</u>	<u>114,663</u>
	<u>130,482</u>	<u>114,838</u>	<u>114,754</u>

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Customer A	<u>88,142</u>	<u>88,257</u>	<u>64,316</u>

The five largest customers accounted for approximately 36.1%, 39.3% and 38.4%, respectively, of the revenue of the Group for each of the three years ended 30 April 2015, 2016 and 2017.

6 Other income

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Management fee from related companies (<i>note 35(b)</i>)	420	420	—
Sales of scrapped materials	541	414	510
Sundry income	1,019	310	383
	<u>1,980</u>	<u>1,144</u>	<u>893</u>

7 Other gains, net

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Exchange gain, net	749	204	245
Net (loss)/gain on disposal of property, plant and equipment	(153)	(15)	45
	<u>596</u>	<u>189</u>	<u>290</u>

8 Expenses by nature

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration			
— Audit services	1,035	838	327
— Non-audit services	92	100	—
Advertising and promotion expenses	7,314	4,105	4,975
Amortisation of prepaid operating lease (<i>note 15</i>)	152	152	234
Amortisation of intangible assets (<i>note 17</i>)	21,024	22,376	23,208
Allowance for impairment of slow moving inventories (<i>note 19</i>)	794	60	77
Bank charges	2,010	1,761	2,043
Commissions	5,822	6,375	3,100
Consumables	9,167	8,577	6,926
Cost of inventories sold (<i>note 19</i>)	184,387	134,084	102,651
Custom and declaration handling expenses	5,760	3,794	3,265
Depreciation of property, plant and equipment (<i>note 16</i>)	28,882	25,720	21,234
Other taxes and surcharges	1,294	4,727	4,920
Operating lease expenses	7,689	7,347	7,276
Product testing expenses	2,374	2,029	1,553
Repair and maintenance expenses	3,490	2,501	2,460
Licenses fee	21,456	14,746	9,893
Staff costs, including directors' remuneration (<i>note 11</i>)	119,169	107,541	95,706
Subcontracting expenses	8,566	3,210	2,917
Listing expenses	—	4,274	12,992
Logistics and warehousing expenses	20,546	24,365	18,045
Utilities	17,052	13,649	12,021
Other expenses	6,936	3,981	7,146
	<u>475,011</u>	<u>396,312</u>	<u>342,969</u>

9 Finance costs, net

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Finance income:			
Interest income from a related company (<i>note 35(b)</i>)	2,832	1,114	—
Bank interest income	<u>5</u>	<u>35</u>	<u>18</u>
	<u>2,837</u>	<u>1,149</u>	<u>18</u>
Finance expenses:			
Bank overdraft interest	(3,308)	(1,718)	(1,253)
Other bank borrowing interest	<u>(1,884)</u>	<u>(2,597)</u>	<u>(4,651)</u>
	<u>(5,192)</u>	<u>(4,315)</u>	<u>(5,904)</u>
Finance costs, net	<u>(2,355)</u>	<u>(3,166)</u>	<u>(5,886)</u>

10 Income tax expenses/(credits)

For the years ended 30 April 2015, 2016 and 2017, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit. The Group's subsidiaries in the PRC are subject to the China enterprise income tax at a rate of 25% on estimated assessable profits. The Group's subsidiary in the US is subject to US corporate income tax at progressive tax rates ranged from 5% to 39% on estimated assessable profits.

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current taxation			
Hong Kong profits tax	7,884	13,673	(1,120)
China enterprise income tax	2,009	1,374	1,730
US corporate income tax	<u>79</u>	<u>145</u>	<u>109</u>
	9,972	15,192	719
Deferred taxation (<i>note 27</i>)			
— Recognition of/(reversal of recognised) temporary difference for the change of applicable tax rate	5,030	—	(3,970)
— Origination and reversal of temporary difference	<u>(5,358)</u>	<u>(1,606)</u>	<u>141</u>
	<u>(328)</u>	<u>(1,606)</u>	<u>(3,829)</u>
	<u>9,644</u>	<u>13,586</u>	<u>(3,110)</u>

The difference between the actual income tax expenses charged to the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rates to profit before taxation can be reconciled as follows:

	Year ended 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Profit before taxation	<u>46,176</u>	<u>47,611</u>	<u>19,474</u>
Tax calculated at domestic tax rates applicable to profits in respective countries	9,649	7,928	5,006
Income not subject to tax	(2,183)	(6)	(1,298)
Expenses not deductible for tax purpose	122	1,463	1,916
Tax losses not recognised	409	3,600	718
Over-provision in prior years (<i>note (ii)</i>)	—	—	(2,564)
Utilisation of previously unrecognised tax losses	—	—	(3,310)
Recognition of/(reversal of recognised) temporary difference for the change of applicable tax rate (<i>note (i) and (ii)</i>)	5,030	—	(3,970)
(Origination)/reversal of temporary difference of capital injection (<i>note (iii)</i>)	(3,278)	486	392
Others	<u>(105)</u>	<u>115</u>	<u>—</u>
Income tax expenses/(credits)	<u>9,644</u>	<u>13,586</u>	<u>(3,110)</u>

For the years ended 30 April 2015, 2016 and 2017, the weighted average applicable tax rates were 20.9%, 28.5% and negative 16.0%, respectively.

Notes:

- (i) During the year ended 30 April 2015, the Group transformed its operations in the PRC that its manufacturing arrangement was changed from contract processing to import processing, and resulted in a change of tax bases. Additional income tax expense was recognised for the temporary difference due to the change of tax bases.
- (ii) During the year ended 30 April 2016, the Group is in the process of transformation back to contract processing. Income tax is provided for under import processing at 16.5%. During the year ended 30 April 2017, the Group completed its transformation and successfully resumed back to contract processing operation. In the opinion of the directors, the completion of the manufacturing arrangement transformation from import processing to contract processing allows the Group to claim for the deduction under contract processing for the year ended 30 April 2016 and 2017.
- (iii) During the year ended 30 April 2015, the Group injected certain machineries into DG Kiddieland Industrial. According to the relevant rules in the PRC, the machineries are recognised at fair values at the time of the injection for tax reporting purpose. Deferred tax assets are recognised for the temporary differences arose.

Management considered the Group will be entitled to the deduction allowance under contract processing and be liable to a lower applicable tax rate.

A reversal of income tax expense was recognised due to the temporary difference provided at a lower applicable tax rate.

11 Staff costs (including directors' remunerations)

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and bonus	102,367	93,531	81,471
Retirement benefit costs — defined contribution plan:			
— Hong Kong	837	793	793
— PRC	7,013	5,663	8,849
Other benefits	8,952	7,554	4,593
	<u>119,169</u>	<u>107,541</u>	<u>95,706</u>

Retirement benefit costs of the Group in the PRC for the years ended 30 April 2015, 2016 and 2017 comprised of costs of HK\$8,548,000, HK\$7,164,000 and HK\$10,578,000, respectively, offset by the reversal of provision for prior years of HK\$1,535,000, HK\$1,501,000 and HK\$1,729,000, respectively. The Group reversed the provision for retirement benefits costs after considering the relevant local rules and regulations and the legal opinion received from the Company's PRC legal adviser that the Social Insurance Fund Management Bureau are time-barred from ordering payment based on the two-year statute of limitation.

12 Emoluments of the directors and the five highest paid individuals*(a) Directors' emoluments*

Remuneration of every director is set out below.

	For the year ended 30 April 2015								Total HK\$'000
	Fee HK\$'000	Salary HK\$'000	Discretionary bonus HK\$'000	Housing benefits HK\$'000	Estimated monetary value of other benefits HK\$'000	Employer's contribution to provident fund HK\$'000	Remunerations paid or receivables in respect of accepting office as director HK\$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	
<i>Executive directors:</i>									
Mr. Lo Hung	—	—	—	330	—	—	—	—	330
Ms. Leung Siu Lin, Esther	—	—	—	330	—	—	—	—	330
Mr. Lo Shiu Kee, Kenneth	—	1,092	—	480	—	18	—	—	1,590
Ms. Lo Shiu Shan, Suzanne	—	718	—	270	—	18	—	—	1,006
Ms. Sin Lo Siu Wai, Sylvia	—	940	—	180	—	18	—	—	1,138
	—	<u>2,750</u>	—	<u>1,590</u>	—	<u>54</u>	—	—	<u>4,394</u>

For the year ended 30 April 2016

	Fee HK\$'000	Salary HK\$'000	Discretionary bonus HK\$'000	Housing benefits HK\$'000	Estimated monetary value of other benefits HK\$'000	Employer's contribution to provident fund HK\$'000	Remunerations paid or receivables in respect of accepting office as director HK\$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<i>Executive directors:</i>									
Mr. Lo Hung	—	—	—	—	—	—	—	—	—
Ms. Leung Siu Lin, Esther	—	—	—	—	—	—	—	—	—
Mr. Lo Shiu Kee, Kenneth	—	1,092	—	—	—	18	—	—	1,110
Ms. Lo Shiu Shan, Suzanne	—	718	—	—	—	18	—	—	736
Ms. Sin Lo Siu Wai, Sylvia	—	940	—	—	—	18	—	—	958
	—	2,750	—	—	—	54	—	—	2,804

For the year ended 30 April 2017

	Fee HK\$'000	Salary HK\$'000	Discretionary bonus HK\$'000	Housing benefits HK\$'000	Estimated monetary value of other benefits HK\$'000	Employer's contribution to provident fund HK\$'000	Remunerations paid or receivables in respect of accepting office as director HK\$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<i>Executive directors:</i>									
Mr. Lo Hung	—	—	—	—	—	—	—	—	—
Ms. Leung Siu Lin, Esther	—	—	—	—	—	—	—	—	—
Mr. Lo Shiu Kee, Kenneth	—	1,077	—	—	—	18	—	—	1,095
Ms. Lo Shiu Shan, Suzanne	—	718	—	—	—	18	—	—	736
Ms. Sin Lo Siu Wai, Sylvia	—	940	—	—	—	18	—	—	958
	—	2,735	—	—	—	54	—	—	2,789

No directors and chief executives of the Company waived any emoluments during the Track Record Period.

The emoluments shown above represents remuneration received from the Group by these directors in their capacity as employee to the Group.

(b) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group for the years ended 30 April 2015, 2016 and 2017 include three, two and two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two, three and three individuals during the years ended 30 April 2015, 2016 and 2017, respectively are as follows:

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Salaries, commissions, bonus, other allowances and benefits in kind	2,384	3,436	3,409
Employer's contribution to provident fund	<u>35</u>	<u>54</u>	<u>54</u>
	<u>2,419</u>	<u>3,490</u>	<u>3,463</u>

The emoluments of these individuals are within the following bands:

	Number of individual		
	Year ended 30 April		
	2015	2016	2017
Emoluments bands			
HK\$Nil–1,000,000	—	—	1
HK\$1,000,001–1,500,000	<u>2</u>	<u>3</u>	<u>2</u>
	<u>2</u>	<u>3</u>	<u>3</u>

13 Dividends

No dividend has been paid or declared by the Company since its incorporation.

Dividend during each of the years ended 30 April 2015, 2016 and 2017 represented dividends declared by Kiddieland Industrial Limited to its then equity holders. The rates of dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Declared and paid interim dividend	<u>22,000</u>	<u>27,000</u>	<u>60,000</u>

14 Earnings per share*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares in issue during the Relevant Periods, 10,000 shares of the Company, which were resulted from the issue and allotment 10,000 shares by the Company in connection with the Reorganisation, had been treated as if those shares were in issue since 1 May 2014.

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Net profit attributable to the owners of the Company	36,532	34,025	22,584
Weighted average number of ordinary shares in issue	10,000	10,000	10,000
Basic earnings per share (HK dollars)	3,653.2	3,402.5	2,258.4

Note: The basic earnings per share is calculated on the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 30 April 2015, 2016 and 2017. In determining the weighted average number of ordinary shares in issue, the 10,000 shares issued during the Reorganisation as described in note 1.2 were deemed to have been in issue since 1 May 2014. The earnings per shares has not taken into account the capitalisation issue of 749,990,000 shares as described in note 37(a).

(b) Diluted earnings per share

For the years ended 30 April 2015, 2016 and 2017, diluted earnings per share equals basic earnings per share as there was no potential dilutive share.

15 Prepaid operating lease

The Group's prepaid operating lease's net book amount is analysed as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Held in the PRC	5,639	5,487	12,896

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Beginning of the year	5,791	5,639	5,487
Addition	—	—	7,627
Less: amortisation (<i>note 8</i>)	(152)	(152)	(234)
Exchange difference	—	—	16
End of the year	5,639	5,487	12,896

During the year ended 30 April 2017, the Group paid RMB6,771,000 (approximately HK\$7,627,000) for obtaining the land use right of the existing land the Group has been using. Accordingly, the Group classified the payment as an addition to Prepaid operating lease during the year.

As at 30 April 2015, 2016 and 2017, the carrying amount of the prepaid operating lease for the land that was in the process of obtaining the land certificate was HK\$5,639,000, HK\$5,487,000 and HK\$12,896,000, respectively. In the opinion of the directors, based on the advice of the Group's external legal adviser, the absence of the land certificate does not have adverse impact on the right of use of the land.

Amortisation of prepaid operating lease has been charged to cost of sales during the Track Record Period.

16 Property, plant and equipment

	Leasehold improvements	Factories and buildings	Furniture and fixtures	Office equipment	Motor vehicles	Plant and machinery	Pleasure boat	Moulds and tools	Moulds work-in-progress	Construction-in-progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 May 2014											
Cost	80,220	55,148	9,397	8,506	10,543	86,110	39,979	206,518	7,341	—	503,762
Accumulated depreciation	(54,962)	(11,834)	(6,910)	(7,851)	(8,279)	(70,282)	(16,658)	(169,493)	—	—	(346,269)
Net book amount	<u>25,258</u>	<u>43,314</u>	<u>2,487</u>	<u>655</u>	<u>2,264</u>	<u>15,828</u>	<u>23,321</u>	<u>37,025</u>	<u>7,341</u>	<u>—</u>	<u>157,493</u>
Year ended 30 April 2015											
Opening net book amount	25,258	43,314	2,487	655	2,264	15,828	23,321	37,025	7,341	—	157,493
Addition	1,262	—	868	297	—	1,025	—	2,606	7,623	5,349	19,030
Disposal/written off (note 31)	(153)	—	—	—	—	—	(22,655)	—	—	—	(22,808)
Depreciation for the year (note 8)	(4,926)	(1,103)	(1,296)	(421)	(897)	(4,171)	(666)	(15,402)	—	—	(28,882)
Transfer upon completion	—	—	—	—	—	—	—	10,227	(10,227)	—	—
Exchange difference	—	—	—	—	—	10	—	—	—	—	10
Net book amount	<u>21,441</u>	<u>42,211</u>	<u>2,059</u>	<u>531</u>	<u>1,367</u>	<u>12,692</u>	<u>—</u>	<u>34,456</u>	<u>4,737</u>	<u>5,349</u>	<u>124,843</u>
As at 30 April 2015 and 1 May 2015											
Cost	54,624	55,148	10,265	8,805	10,543	87,152	—	219,351	4,737	5,349	455,974
Accumulated depreciation	(33,183)	(12,937)	(8,206)	(8,274)	(9,176)	(74,460)	—	(184,895)	—	—	(331,131)
Net book amount	<u>21,441</u>	<u>42,211</u>	<u>2,059</u>	<u>531</u>	<u>1,367</u>	<u>12,692</u>	<u>—</u>	<u>34,456</u>	<u>4,737</u>	<u>5,349</u>	<u>124,843</u>

	Leasehold improvements	Factories and buildings	Furniture and fixtures	Office equipment	Motor vehicles	Plant and machinery	Pleasure boat	Moulds and tools	Moulds work-in-progress	Construction-in-progress	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Year ended 30 April 2016											
Opening net book amount	21,441	42,211	2,059	531	1,367	12,692	—	34,456	4,737	5,349	124,843
Addition	—	—	344	129	228	2,054	—	63	7,891	—	10,709
Disposal/written off (note 31)	—	—	—	—	—	(15)	—	—	—	—	(15)
Depreciation for the year (note 8)	(5,207)	(1,103)	(897)	(263)	(901)	(3,546)	—	(13,803)	—	—	(25,720)
Transfer upon completion	5,349	—	—	—	—	—	—	8,313	(8,313)	(5,349)	—
Exchange difference	(207)	—	(5)	(1)	(3)	(83)	—	(105)	(62)	—	(466)
Net book amount	<u>21,376</u>	<u>41,108</u>	<u>1,501</u>	<u>396</u>	<u>691</u>	<u>11,102</u>	<u>—</u>	<u>28,924</u>	<u>4,253</u>	<u>—</u>	<u>109,351</u>
As at 30 April 2016 and 1 May 2016											
Cost	59,758	55,148	10,602	8,927	10,768	88,743	—	227,616	4,253	—	465,815
Accumulated depreciation	<u>(38,382)</u>	<u>(14,040)</u>	<u>(9,101)</u>	<u>(8,531)</u>	<u>(10,077)</u>	<u>(77,641)</u>	<u>—</u>	<u>(198,692)</u>	<u>—</u>	<u>—</u>	<u>(356,464)</u>
Net book amount	<u>21,376</u>	<u>41,108</u>	<u>1,501</u>	<u>396</u>	<u>691</u>	<u>11,102</u>	<u>—</u>	<u>28,924</u>	<u>4,253</u>	<u>—</u>	<u>109,351</u>
Year ended 30 April 2017											
Opening net book amount	21,376	41,108	1,501	396	691	11,102	—	28,924	4,253	—	109,351
Addition	635	—	308	34	—	622	—	1,175	10,461	—	13,235
Depreciation for the year (note 8)	(4,702)	(1,103)	(753)	(214)	(488)	(2,839)	—	(11,135)	—	—	(21,234)
Transfer upon completion	—	—	—	—	—	—	—	7,358	(7,358)	—	—
Exchange difference	(274)	—	(18)	(1)	(14)	(177)	—	(272)	(375)	—	(1,131)
Net book amount	<u>17,035</u>	<u>40,005</u>	<u>1,038</u>	<u>215</u>	<u>189</u>	<u>8,708</u>	<u>—</u>	<u>26,050</u>	<u>6,981</u>	<u>—</u>	<u>100,221</u>
As at 30 April 2017											
Cost	60,080	55,148	10,884	8,952	9,528	89,133	—	235,849	6,981	—	476,555
Accumulated depreciation	<u>(43,045)</u>	<u>(15,143)</u>	<u>(9,846)</u>	<u>(8,737)</u>	<u>(9,339)</u>	<u>(80,425)</u>	<u>—</u>	<u>(209,799)</u>	<u>—</u>	<u>—</u>	<u>(376,334)</u>
Net book amount	<u>17,035</u>	<u>40,005</u>	<u>1,038</u>	<u>215</u>	<u>189</u>	<u>8,708</u>	<u>—</u>	<u>26,050</u>	<u>6,981</u>	<u>—</u>	<u>100,221</u>

Depreciation of the Group's property, plant and equipment has been recognised as follows:

	Year ended 30 April		
	2015	2016	2017
	HKS'000	HKS'000	HKS'000
Cost of sales	26,298	24,390	20,437
Administrative expenses	<u>2,584</u>	<u>1,330</u>	<u>797</u>
	<u>28,882</u>	<u>25,720</u>	<u>21,234</u>

As at 30 April 2015, 2016 and 2017, the Group was in the process of obtaining the property ownership certificates of the leasehold improvements and factories and buildings in the PRC with carrying amounts of approximately HK\$63,652,000, HK\$62,484,000 and HK\$57,040,000, respectively. In the opinion of the directors, based on the advice from the Group's external legal adviser, the absence of the property ownership certificates of these properties does not affect the right of use of these factories and buildings. The directors considered that the absence of the property ownership certificates does not impair their carrying values to the Group as the Group were permitted for construction on the leased land and the probability of being evicted on the ground of an absence of property ownership certificate was remote.

17 Intangible assets

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Licenses	<u>25,709</u>	<u>29,145</u>	<u>29,009</u>
	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of the year	24,681	25,709	29,145
Addition	22,052	25,812	23,072
Less: amortisation (<i>note 8</i>)	<u>(21,024)</u>	<u>(22,376)</u>	<u>(23,208)</u>
End of the year	<u>25,709</u>	<u>29,145</u>	<u>29,009</u>

Licenses represent minimum payments under license arrangement for non-exclusive rights of manufacturing toy products with specific cartoon icons and distributing to certain countries. Amortisation of intangible assets is charged to cost of sales.

18 Investment in a subsidiary**Company**

	As at 30 April 2017 <i>HK\$'000</i>
Unlisted shares, at cost	<u>152,392</u>

Note: Detail of principal subsidiaries are stated in note 1.2.

19 Inventories

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	31,962	22,716	27,902
Work-in-progress	21,937	25,438	36,306
Finished goods	46,499	44,156	44,201
Allowance for impairment of slow moving inventories	<u>(794)</u>	<u>(854)</u>	<u>(931)</u>
	<u>99,604</u>	<u>91,456</u>	<u>107,478</u>

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$185,181,000, HK\$134,144,000 and HK\$102,728,000 which included allowance for impairment of slow moving inventories of HK\$794,000, HK\$60,000 and HK\$77,000 for each of the years ended 30 April 2015, 2016 and 2017, respectively.

Movement of allowance for impairment of slow moving inventories:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Beginning of the year	—	(794)	(854)
Charged to consolidated statements of comprehensive income (<i>note 8</i>)	(794)	(60)	(77)
End of the year	<u>(794)</u>	<u>(854)</u>	<u>(931)</u>

20 Trade and bills receivables

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	<u>30,575</u>	<u>33,050</u>	<u>38,714</u>

The carrying amounts of trade and bills receivables are denominated in the following currencies:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
US\$	29,343	31,899	37,442
RMB	<u>1,232</u>	<u>1,151</u>	<u>1,272</u>
	<u>30,575</u>	<u>33,050</u>	<u>38,714</u>

The Group grants credit periods to customers ranged from 0 to 150 days. At 30 April 2015, 2016 and 2017, the ageing analysis of the trade and bills receivables based on invoice date is as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	28,871	32,662	33,442
Over 3 months	<u>1,704</u>	<u>388</u>	<u>5,272</u>
	<u>30,575</u>	<u>33,050</u>	<u>38,714</u>

As of 30 April 2015, 2016 and 2017, trade and bills receivables of HK\$3,933,000, HK\$1,446,000 and HK\$5,166,000 were past due but not considered to be impaired because these mainly related to customers from whom there were no history of default. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade and bills receivables is as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Past due by:			
Up to 3 months	3,933	1,442	4,605
Over 3 months	<u>—</u>	<u>4</u>	<u>561</u>
	<u>3,933</u>	<u>1,446</u>	<u>5,166</u>

The maximum exposures to credit risk as at 30 April 2015, 2016 and 2017 were the carrying amounts of the trade and bills receivables. The Group did not hold any collateral as security. The carrying amounts of trade and bills receivables approximate their fair values.

21 Other receivables, deposits and prepayments

Group

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Deposits	314	113	113
Prepayments	318	1,081	3,281
Prepaid listing expenses	—	1,183	4,061
Other receivables	6,522	1,121	1,400
	<u>7,154</u>	<u>3,498</u>	<u>8,855</u>
Less: prepayment for properties, plants and equipment classified as non-current assets	—	—	(1,637)
Current portion	<u>7,154</u>	<u>3,498</u>	<u>7,218</u>

The carrying amounts of other receivables, deposits and prepayments are denominated in the following currencies:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
US\$	1,406	970	830
RMB	5,636	1,258	2,422
HK\$	112	1,132	5,603
Others	—	138	—
	<u>7,154</u>	<u>3,498</u>	<u>8,855</u>

The other receivables and deposits do not contain impaired assets. The maximum exposures to credit risk at the reporting dates are the carrying value of other receivables and deposits mentioned above. The Group does not hold any collateral as security.

Company

	As at 30 April 2017 HK\$'000
Prepayments	924
Prepaid listing expenses	<u>4,061</u>
	<u>4,985</u>

The carrying amounts of prepayments denominated in the following currencies:

	As at 30 April 2017 <i>HK\$'000</i>
US\$	421
RMB	667
HK\$	<u>3,897</u>
	<u><u>4,985</u></u>

22 Amounts due from/(to) related companies and shareholders

Group

	As at 30 April		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Amounts due from related companies			
— Trade nature	3,220	3,913	—
— Non-trade nature	<u>122,411</u>	<u>160,826</u>	<u>90,194</u>
	<u><u>125,631</u></u>	<u><u>164,739</u></u>	<u><u>90,194</u></u>
Amounts due to related companies			
— Non-trade nature	<u>(38,635)</u>	<u>(38,490)</u>	<u>—</u>
Amounts due from shareholders			
— Non-trade nature	<u>7,252</u>	<u>7,252</u>	<u>169</u>
Amounts due to shareholders			
— Non-trade nature	<u>(13,758)</u>	<u>(6,416)</u>	<u>—</u>

Amounts due from/(to) related companies are unsecured, repayable on demand and non-interest bearing, except for the amounts of HK\$72,634,000 and HK\$10,261,000 due from a related company as at 30 April 2015 and 2016 which carried interest rate of 3.67% and 5.25% per annum, respectively.

The amounts due from/(to) shareholders are unsecured, repayable on demand and interest free. The carrying amounts of the amounts due from/(to) related companies and shareholders approximate to their fair values.

The amounts due from/(to) related companies and shareholders are denominated in the following currencies:

	As at 30 April		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Amounts due from related companies			
— HK\$	<u>125,631</u>	<u>164,739</u>	<u>90,194</u>
Amounts due to related companies			
— US\$	(33,908)	(33,764)	—
— HK\$	<u>(4,727)</u>	<u>(4,726)</u>	<u>—</u>
	<u>(38,635)</u>	<u>(38,490)</u>	<u>—</u>
Amounts due from shareholders			
— HK\$	<u>7,252</u>	<u>7,252</u>	<u>169</u>
Amounts due to shareholders			
— HK\$	<u>(13,758)</u>	<u>(6,416)</u>	<u>—</u>

The carrying amounts of amounts due from/(to) related companies and shareholders approximate their fair values.

All non-trade amounts due from related companies and shareholders as at 30 April 2017 are expected to be fully settled before the listing of the Company's Shares on the Main Board of The Stock Exchange of Hong Kong Limited.

Company

	As at 30 April 2017 <i>HK\$'000</i>
Amounts due to subsidiaries	<u>19,912</u>

The carrying amounts of the amounts due to subsidiaries approximate to its fair value.

The amounts due to subsidiaries are denominated in the following currencies:

	As at 30 April 2017 <i>HK\$'000</i>
Amounts due to subsidiaries	
— HK\$	16,039
— RMB	2,510
— US\$	<u>1,363</u>
	<u>19,912</u>

The amounts due to subsidiaries are interest free, unsecured and will not be demanded for repayment within 12 months from 30 April 2017.

23 Loan due from/to a shareholder classified as financial assets/liabilities at fair value through profit or loss and derivative financial instruments

During the years ended 30 April 2015 and 2016, the Group entered into certain structured currencies forward contracts ("Currencies Forward") with banks at the instruction of a shareholders of the Company. The shareholders undertook to receive from or pay to the Group for the gain or loss arising from the Currencies Forward respectively. Gain or loss on the Currencies Forward are virtually transferred and borne by the shareholder. Such arrangement established another loan with a shareholder, on behalf of the rest of the shareholders, of symmetrical terms to the Currencies Forward.

Accordingly, the Group recognised corresponding derivative financial assets/liabilities pursuant to the Currencies Forward, and at the same time recognised loan due from/to a shareholder classified as financial assets/liabilities at fair value through profit or loss. The changes in fair values of the derivative financial asset/liabilities from Currencies Forward and the amounts due from/to shareholder classified as financial assets/liabilities at fair value through profit or loss are recognised in profit or loss separately. The Group has performed fair value assessment on the Currencies Forward and the loan due from a shareholder classified as financial assets/liabilities at fair value through profit or loss separately. For the years ended 30 April 2015 and 2016, the fair value changes arising from these financial instruments coincidentally set off and had no net impact to the profit and loss of Group.

The fair values of these Currencies Forward were classified as a non-current asset or liability if the remaining maturities of the forward contract were more than 12 months and, as a current asset or liability if the maturity of the forward contracts were less than 12 months.

The Currencies Forward has been matured and fully settled during the year ended 30 April 2016.

24 Cash and bank balances

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at banks	15,256	15,097	7,810
Cash on hand	<u>260</u>	<u>126</u>	<u>68</u>
	<u>15,516</u>	<u>15,223</u>	<u>7,878</u>
Maximum exposure to credit risk	<u>15,256</u>	<u>15,097</u>	<u>7,810</u>

Cash and bank balances are denominated in the following currencies

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	7,943	5,722	3,164
HK\$	2,229	5,149	2,512
RMB	<u>5,344</u>	<u>4,352</u>	<u>2,202</u>
	<u>15,516</u>	<u>15,223</u>	<u>7,878</u>

As at 30 April 2015, 2016 and 2017, cash and bank balances of HK\$5,621,000, HK\$4,978,000 and HK\$2,307,000, respectively, were held in the PRC and were subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Cash and cash equivalents include the following for the purposes of the consolidated cash flows statements:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Cash at banks	15,256	15,097	7,810
Cash on hand	260	126	68
Bank overdraft (<i>note 28</i>)	<u>(43,860)</u>	<u>(37,061)</u>	<u>(6,675)</u>
	<u>(28,344)</u>	<u>(21,838)</u>	<u>1,203</u>

25 Share capital

Group and Company

	Number of ordinary Shares	Nominal value of ordinary Shares HK\$
Authorised share capital:		
As at 3 June 2016 (date of incorporation) (<i>note 1.2(i)</i>)	<u>3,800,000</u>	<u>380,000</u>
As at 30 April 2017	<u>3,800,000</u>	<u>380,000</u>
	Number of ordinary Shares	Nominal value of ordinary Shares HK\$'000
Issued and fully paid:		
Issuance of ordinary share at date of incorporation (<i>note 1.2(i)</i>)	1	—*
Issuance of ordinary shares of HK\$0.1 each (<i>note 1.2(v)</i>)	<u>9,999</u>	<u>1</u>
	<u>10,000</u>	<u>1</u>

* denoted value of HK\$0.1.

26 Other Reserves

Group

	Combined capital reserves HK\$'000 (note a)	Capital reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 May 2014	46	—	756	163,055	163,857
Profit for the year	—	—	—	36,532	36,532
Other comprehensive income:					
— Currency translation difference	—	—	15	—	15
	—	—	15	—	15
Total comprehensive income	—	—	15	36,532	36,547
Transaction with owners:					
Dividends paid (note 13)	—	—	—	(22,000)	(22,000)
At 30 April 2015 and 1 May 2015	46	—	771	177,587	178,404
Profit for the year	—	—	—	34,025	34,025
Other comprehensive income:					
— Currency translation difference	—	—	(1,798)	—	(1,798)
	—	—	(1,798)	—	(1,798)
Total comprehensive income	—	—	(1,798)	34,025	32,227
Transaction with owners:					
Dividends paid (note 13)	—	—	—	(27,000)	(27,000)
At 30 April 2016 and 1 May 2016	46	—	(1,027)	184,612	183,631
Profit for the year	—	—	—	22,584	22,584
Other comprehensive income:					
— Currency translation difference	—	—	(2,283)	—	(2,283)
	—	—	(2,283)	—	(2,283)
Total comprehensive income	—	—	(2,283)	22,584	20,301
Transaction with owners:					
Issuance of ordinary shares pursuant to the Reorganisation (note b)	(46)	45	—	—	(1)
Dividends paid (note 13)	—	—	—	(60,000)	(60,000)
	(46)	45	—	(60,000)	(60,001)
At 30 April 2017	—	45	(3,310)	147,196	143,931

Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 3 June 2016 (date of incorporation)	—	—	—
Loss for the year	—	(17,266)	(17,266)
Transaction with owners:			
Issuance of ordinary shares pursuant to the Reorganisation (<i>note b</i>)	152,391	—	152,391
At 30 April 2017	<u>152,391</u>	<u>(17,266)</u>	<u>135,125</u>

Notes:

- (a) Combined capital as at 30 April 2015 and 2016 represented the share capital of the entities within the Group after elimination of intercompany investments. The combined capital was transferred to capital reserve upon completion of Reorganisation on 23 January 2017.
- (b) Share premium of HK\$152,391,000 represented the difference between the carrying values of the group subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof. Please refer to note 1.2.

27 Deferred income tax

The analysis of deferred income tax assets/(liabilities) is as follows:

	As at 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Deferred income tax assets:			
— Deferred income tax assets to be recovered after more than 12 months	4,307	3,727	3,075
— Deferred income tax assets to be recovered within 12 months	278	345	662
	<u>4,585</u>	<u>4,072</u>	<u>3,737</u>
Deferred income tax liabilities:			
— Deferred income tax liabilities to be recovered after more than 12 months	(7,004)	(5,328)	(3,063)
— Deferred income tax liabilities to be recovered within 12 months	(3,055)	(2,612)	(713)
	<u>(10,059)</u>	<u>(7,940)</u>	<u>(3,776)</u>
Deferred income tax liabilities, net	<u>(5,474)</u>	<u>(3,868)</u>	<u>(39)</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses <i>HK\$'000</i>	Decelerated tax depreciation <i>HK\$'000</i>	Others <i>HK\$'000</i>	Capital injection <i>(Note (i))</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred income tax assets:					
At 1 May 2014	924	83	261	—	1,268
(Charged)/credited to consolidated statement of comprehensive income	<u>(924)</u>	<u>907</u>	<u>56</u>	<u>3,278</u>	<u>3,317</u>
At 30 April 2015 and 1 May 2015	—	990	317	3,278	4,585
Credited/(charged) to consolidated statement of comprehensive income	<u>—</u>	<u>89</u>	<u>(116)</u>	<u>(486)</u>	<u>(513)</u>
At 30 April 2016 and 1 May 2016	—	1,079	201	2,792	4,072
Credited/(charged) to consolidated statement of comprehensive income	<u>—</u>	<u>25</u>	<u>(169)</u>	<u>(191)</u>	<u>(335)</u>
At 30 April 2017	<u>—</u>	<u>1,104</u>	<u>32</u>	<u>2,601</u>	<u>3,737</u>

Note:

- (i) During the year ended 30 April 2015, the Group injected certain machineries into DG Kiddieland Industrial. According to the relevant rules in the PRC, the machineries are recognised at fair values at the time of the injection for tax reporting purpose. Deferred income tax assets are recognised for the temporary differences arose.

	Accelerated tax depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred income tax liabilities:		
At 1 May 2014	(7,070)	(7,070)
Charged to consolidated statement of comprehensive income	<u>(2,989)</u>	<u>(2,989)</u>
At 30 April 2015 and 1 May 2015	(10,059)	(10,059)
Credited to consolidated statement of comprehensive income	<u>2,119</u>	<u>2,119</u>
At 30 April 2016 and 1 May 2016	(7,940)	(7,940)
Credited to consolidated statement of comprehensive income	<u>4,164</u>	<u>4,164</u>
At 30 April 2017	<u>(3,776)</u>	<u>(3,776)</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC.

As at 30 April 2017, deferred income tax liabilities of HK\$1,056,000 have not been recognised for the withholding tax that would be payable on the remittance of earnings of PRC subsidiaries. The related unremitted earnings amounted to HK\$10,557,000 as at 30 April 2017, and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$1,600,000, HK\$5,108,000 and HK\$2,469,000 as at 30 April 2015, 2016 and 2017, respectively, in respect of losses amounting to HK\$8,473,000, HK\$23,004,000 and HK\$12,510,000 as at 30 April 2015, 2016 and 2017 as it is not certain that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities.

The expiry date of these tax losses are as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Expiring in year 2016	269	257	—
Expiring in year 2017	—	—	—
Expiring in year 2018	—	—	—
Expiring in year 2019	813	776	729
Expiring in year 2020	1,295	1,236	1,162
Expiring in year 2021	—	13,930	2,870
Without expiry date	6,096	6,805	7,749
	<u>8,473</u>	<u>23,004</u>	<u>12,510</u>

28 Bank borrowings

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank overdraft	43,860	37,061	6,675
Bank borrowing, secured	<u>67,381</u>	<u>82,983</u>	<u>167,335</u>
	111,241	120,044	174,010
Less: non-current portion	<u>—</u>	<u>—</u>	<u>(13,000)</u>
Current portion	<u>111,241</u>	<u>120,044</u>	<u>161,010</u>

Borrowings due for repayment after one year which contain a repayment on demand clause are classified as current liabilities. All borrowings and overdrafts are wholly repayable within 5 years.

The bank borrowings as at the balance sheet dates are denominated in the following currencies:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
US\$	53,546	59,794	78,265
HK\$	<u>57,695</u>	<u>60,250</u>	<u>95,745</u>
	<u>111,241</u>	<u>120,044</u>	<u>174,010</u>

The following is a schedule of repayments of the bank borrowings in respect of the outstanding borrowings, based on the scheduled repayment terms set out in the loan agreements, as at the balance sheet dates:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	111,241	117,044	134,262
Between 1 to 2 years	—	3,000	23,498
Between 2 to 5 years	<u>—</u>	<u>—</u>	<u>16,250</u>
	<u>111,241</u>	<u>120,044</u>	<u>174,010</u>

The fair value of the bank borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The weighted average effective interest rates for the years ended 30 April 2015, 2016 and 2017 are as follows:

	As at 30 April		
	2015	2016	2017
Bank overdraft	5.29%	5.28%	5.29%
Bank borrowing, secured	<u>2.41%</u>	<u>2.87%</u>	<u>3.07%</u>

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the years are as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
6 months or less	90,917	108,593	174,010
6–12 months	<u>20,324</u>	<u>11,451</u>	<u>—</u>
	<u>111,241</u>	<u>120,044</u>	<u>174,010</u>

The Group has the following undrawn bank borrowing facilities:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Expiring within 1 year	<u>327,774</u>	<u>310,431</u>	<u>212,473</u>

As at 30 April 2015, 2016 and 2017, the Group's bank borrowings are secured by properties belonged to the directors or related companies, personal guarantee and indemnity provided by the directors, pledge of properties owned by related companies wholly owned by the shareholders and corporate guarantee provided by related companies (note 35(e)).

The guarantees provided by the directors or related companies and properties owned by related companies pledged to banks will be replaced by corporate guarantees provided by the Company upon listing.

29 Trade and bills payables

The ageing analysis of the trade and bills payables based on invoice date was as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	17,000	20,443	7,080
1–2 months	3,855	1,269	10,036
2–3 months	462	1	307
Over 3 months	<u>259</u>	<u>968</u>	<u>716</u>
	<u>21,576</u>	<u>22,681</u>	<u>18,139</u>

Trade and bills payables are denominated in the following currencies:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
US\$	3,130	5,266	6,408
HK\$	11,306	13,119	7,930
RMB	<u>7,140</u>	<u>4,296</u>	<u>3,801</u>
	<u>21,576</u>	<u>22,681</u>	<u>18,139</u>

The carrying amounts of the trade and bills payables approximate their fair values.

30 Accruals and other payables

Group

	As at 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Accrued expenses			
— Staff costs	8,681	8,828	5,872
— Utilities	1,579	1,554	1,123
— Freight expenses	405	374	295
— Professional services fee	1,057	1,001	1,046
— Lease expense	904	—	—
— Licenses expense	1,770	171	818
— Listing expense	—	3,694	2,339
— Interest expense	375	160	724
Provision for employees' benefits			
— retirement benefits	3,169	2,492	762
— other benefits	8,811	8,261	3,789
Advance receipts	1,524	856	547
Licenses liabilities	24,419	26,010	25,584
Other accruals	5,385	6,035	5,836
Other payables	<u>3,026</u>	<u>4,255</u>	<u>4,046</u>
	61,105	63,691	52,781
Less: non-current portion	<u>(5,588)</u>	<u>(9,837)</u>	<u>(10,549)</u>
Current portion	<u>55,517</u>	<u>53,854</u>	<u>42,232</u>

The carrying amounts of accruals and other payables are denominated in the following currencies:

	As at 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
US\$	28,648	27,939	27,834
RMB	26,884	22,863	15,725
HK\$	5,573	12,889	8,959
Others	<u>—</u>	<u>—</u>	<u>263</u>
	<u>61,105</u>	<u>63,691</u>	<u>52,781</u>

Company

	As at 30 April 2017 HK\$'000
Accrued listing expense	<u>2,339</u>

The carrying amounts of accruals are denominated in the following currencies:

	As at 30 April 2017 HK\$'000
— HK\$	1,862
— RMB	157
— USD	320
	<u>2,339</u>

31 Net cash generated from operation

	Year ended 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Profit before taxation	46,176	47,611	19,474
Adjustment for:			
Interest income	(2,837)	(1,149)	(18)
Interest expense	5,192	4,315	5,904
Depreciation (note 16)	28,882	25,720	21,234
Amortisation of prepaid operating lease (note 15)	152	152	234
Amortisation of intangible assets (note 17)	21,024	22,376	23,208
Loss/(gain) on disposal of fixed assets	153	15	(45)
Allowance for impairment of slow moving inventories	794	60	77
	<u>99,536</u>	<u>99,100</u>	<u>70,068</u>
Changes in working capital:			
Decrease/(increase) in inventories	12,597	7,047	(17,327)
Decrease/(increase) in trade and bills receivables	4,125	(2,530)	(5,736)
(Increase)/decrease in other receivables, deposits and prepayments	(1,192)	4,475	(1,262)
(Decrease)/increase in trade and bills payables	(17,841)	1,424	(3,903)
(Decrease)/increase in accruals and other payables	(10,614)	1,502	(11,384)
Balances with related companies	(585)	(420)	—
	<u>86,026</u>	<u>110,598</u>	<u>30,456</u>

In the consolidated cash flows statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 30 April		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Net book amount	22,808	15	—
Satisfied by netting of amount due to a related company (note (i))	(22,655)	—	—
Net (loss)/gain on disposal of property, plant and equipment	<u>(153)</u>	<u>(15)</u>	<u>45</u>
Proceeds from disposal of property, plant and equipment	<u>—</u>	<u>—</u>	<u>45</u>

Notes:

Non-cash transaction

- (i) During the year ended 30 April 2015, the Group disposed of the pleasure boat amounted to HK\$22,655,000 and offset with the amount due to Esther & Victor Limited (note 35(b)) which did not result in any cash flow.
- (ii) During the year ended 30 April 2017, the Group declared an interim dividend of HK\$60,000,000 and offset with the amount due from Esther & Victor Limited which did not result in any cash flow.

32 Financial instruments by category

Group

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets as per consolidated balance sheets			
Loan and receivables:			
Trade and bills receivables	30,575	33,050	38,714
Other receivables and deposits	6,836	1,234	1,513
Amounts due from related companies	125,631	164,739	90,194
Amounts due from shareholders	7,252	7,252	169
Cash and bank balances	<u>15,516</u>	<u>15,223</u>	<u>7,878</u>
	<u>185,810</u>	<u>221,498</u>	<u>138,468</u>
Financial assets at fair value through profit or loss:			
Loan due from a shareholder classified as financial assets at fair value through profit or loss	<u>14,584</u>	<u>—</u>	<u>—</u>
	<u>14,584</u>	<u>—</u>	<u>—</u>
Total	<u><u>200,394</u></u>	<u><u>221,498</u></u>	<u><u>138,468</u></u>

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Liabilities as per consolidated balance sheets			
Other financial liabilities carried at amortised cost:			
Trade and bills payables	21,576	22,681	18,139
Accruals and other payables	14,501	17,244	16,227
Licenses liabilities	24,419	26,010	25,584
Amounts due to related companies	38,635	38,490	—
Amounts due to shareholders	13,758	6,416	—
Bank borrowings	<u>111,241</u>	<u>120,044</u>	<u>174,010</u>
	<u>224,130</u>	<u>230,885</u>	<u>233,960</u>
Financial assets at fair value through profit or loss:			
Derivative financial instruments	<u>14,584</u>	<u>—</u>	<u>—</u>
	<u>14,584</u>	<u>—</u>	<u>—</u>
Total	<u><u>238,714</u></u>	<u><u>230,885</u></u>	<u><u>233,960</u></u>
Company			

As at
30 April
2017
HK\$'000

Liabilities as per balance sheet		
Other financial liabilities carried at amortised cost:		
Amounts due to subsidiaries		<u><u>19,912</u></u>

33 Commitments

(i) Capital commitments

As at 30 April 2015, 2016 and 2017, the Group had the following capital commitments:

	As at 30 April		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for:			
— Land use right	<u>—</u>	<u>—</u>	<u>24,784</u>
Contracted but not provided for:			
— Leasehold improvement	<u>—</u>	<u>—</u>	<u>1,747</u>

(ii) *Operating lease commitments*

The Group acts as lessee under operating leases for its office and warehouse locations. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

At the balance sheet dates, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	6,611	6,443	6,258
Between 2 to 5 years	538	6,519	480
	<u>7,149</u>	<u>12,962</u>	<u>6,738</u>

34 Benefits and interests of directors

Emoluments, retirement benefits and termination benefits of directors are disclosed in note 12.

The Group did not pay consideration to third parties for making available the director's services.

As at 30 April 2015, 2016 and 2017, the information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of the directors is as follows:

Name of director	Outstanding	Outstanding	Maximum	Amounts	Provisions	Term	Interest rate	Security
	amount	amounts at	outstanding	fallen due	for doubtful/			
	at the	the end of	during	but not been	bad debts			
	beginning of	the year	the year	paid	made			
	the year							
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 30 April 2015:								
Quasi-loans or credit transactions:								
Ms. Leung Siu Lin, Esther (<i>note 23</i>)	—	14,584	46,160	—	—	Due on the maturity of derivative financial instruments	Interest free	Nil
Ms. Leung Siu Lin, Esther	3,450	—	3,450	—	—	Repayable on demand	Interest free	Nil
Mr. Lo Shiu Kee Kenneth	7,252	7,252	7,252	—	—	Repayable on demand	Interest free	Nil
At 30 April 2016:								
Quasi-loans or credit transactions:								
Mr. Lo Shiu Kee Kenneth	7,252	7,252	7,252	—	—	Repayable on demand	Interest free	Nil
At 30 April 2017:								
Quasi-loans or credit transactions:								
Mr. Lo Shiu Kee Kenneth	7,252	40	7,252	—	—	Repayable on demand	Interest free	Nil

The information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of connected entities of Mr. Lo Hung, Ms. Leung Siu Lin, Esther, Mr. Lo Shiu Kee, Kenneth, Ms. Lo Shiu Shan, Suzanne, and Ms. Sin Lo Siu Wai, Sylvia, directors of the Company, are as follows:

Name of the borrower	Nature of connection	Outstanding amount at the beginning of the year	Outstanding amounts at the end of the year	Maximum outstanding during the year	Amounts fallen due but not been paid	Provisions for doubtful/bad debts made	Term	Interest rate	Security
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 30 April 2015:									
Loan:									
Top Dragon Enterprise Investment Limited	note (i)	72,891	72,634	72,891	—	—	No fixed repayment term	3.67% per annum	Nil
Quasi-loans or credit transactions:									
Top Dragon Enterprise Investment Limited	note (i)	6,575	13,181	13,181	—	—	Repayable on demand	Interest free	Nil
Esther & Victor Limited	note (i)	94	3,012	3,012	—	—	Repayable on demand	Interest free	Nil
Kid Child Limited	note (ii)	16,760	17,094	17,094	—	—	Repayable on demand	Interest free	Nil
Rank Power Limited	note (ii)	14,924	16,963	16,963	—	—	Repayable on demand	Interest free	Nil
Glory Great Investment Limited	note (iii)	2,531	2,634	2,634	—	—	Repayable on demand	Interest free	Nil
Grand Fancy Investment Limited	note (iii)	306	—	306	—	—	Repayable on demand	Interest free	Nil
Brilliant Huge Limited	note (iv)	8	11	11	—	—	Repayable on demand	Interest free	Nil
Concept Max Investment Limited	note (v)	26	63	63	—	—	Repayable on demand	Interest free	Nil
Easy Bloom Limited	note (vi)	18	39	39	—	—	Repayable on demand	Interest free	Nil
			<u>52,997</u>						
			<u><u>125,631</u></u>						

Name of the borrower	Nature of connection	Outstanding amount at the beginning of the year HK\$'000	Outstanding amounts at the end of the year HK\$'000	Maximum outstanding during the year HK\$'000	Amounts fallen due but not been paid HK\$'000	Provisions for doubtful/bad debts made HK\$'000	Term	Interest rate	Security
At 30 April 2016:									
Loan:									
Top Dragon Enterprise Investment Limited	note (i)	72,634	10,261	72,634	—	—	No fixed repayment term	5.25% per annum	Nil
Quasi-loans or credit transactions:									
Esther & Victor Limited	note (i)	3,012	52,491	52,491	—	—	Repayable on demand	Interest free	Nil
Kid Child Limited	note (ii)	17,094	17,541	17,541	—	—	Repayable on demand	Interest free	Nil
Rank Power Limited	note (ii)	16,963	19,235	19,235	—	—	Repayable on demand	Interest free	Nil
Glory Great Investment Limited	note (iii)	2,634	2,634	2,634	—	—	Repayable on demand	Interest free	Nil
Brilliant Huge Limited	note (iv)	11	11	11	—	—	Repayable on demand	Interest free	Nil
Top Dragon Enterprise Investment Limited	note (i)	13,181	62,447	62,447	—	—	Repayable on demand	Interest free	Nil
Concept Max Investment Limited	note (v)	63	78	78	—	—	Repayable on demand	Interest free	Nil
Easy Bloom Limited	note (vi)	39	41	41	—	—	Repayable on demand	Interest free	Nil
			<u>154,478</u>						
			<u><u>164,739</u></u>						
At 30 April 2017:									
Loan:									
Top Dragon Enterprise Investment Limited	note (i)	10,261	—	10,261	—	—	No fixed repayment term	5.25% per annum	Nil
Quasi-loans or credit transactions:									
Esther & Victor Limited	note (i)	52,491	90,194	147,192	—	—	Repayable on demand	Interest free	Nil
Kid Child Limited	note (ii)	17,541	—	17,541	—	—	Repayable on demand	Interest free	Nil
Rank Power Limited	note (ii)	19,235	—	19,235	—	—	Repayable on demand	Interest free	Nil
Glory Great Investment Limited	note (iii)	2,634	—	2,634	—	—	Repayable on demand	Interest free	Nil
Brilliant Huge Limited	note (iv)	1	—	11	—	—	Repayable on demand	Interest free	Nil
Top Dragon Enterprise Investment Limited	note (i)	62,447	—	62,447	—	—	Repayable on demand	Interest free	Nil
Concept Max Investment Limited	note (v)	78	—	78	—	—	Repayable on demand	Interest free	Nil
Easy Bloom Limited	note (vi)	41	—	41	—	—	Repayable on demand	Interest free	Nil
			<u>90,194</u>						
			<u><u>90,194</u></u>						

Notes:

- (i) The entity is wholly, evenly and jointly owned by Mr. Lo Hung and Ms. Leung Siu Lin, Esther.
- (ii) The entity is 33.3%, 33.3%, 16.7% and 16.7% owned by Ms. Lo Shiu Shan Suzanne, Ms. Sin Lo Siu Wai, Sylvia, Mr. Lo Hung and Ms. Leung Siu Lin, Esther, respectively.
- (iii) The entity is wholly owned by Mr. Lo Shiu Kee, Kenneth.
- (iv) The entity is wholly, evenly and jointly owned by Mr. Lo Hung, Ms. Leung Siu Lin, Esther, Mr. Lo Shiu Kee, Kenneth, Ms. Lo Shiu Shan, Suzanne and Ms. Sin Lo Siu Wai, Sylvia.
- (v) The entity is wholly, evenly and jointly owned by Mr. Lo Hung, Ms. Leung Siu Lin, Esther and Mr. Lo Shiu Kee, Kenneth.
- (vi) The entity is 75%, 12.5% and 12.5% owned by Ms. Lo Shiu Shan Suzanne, Mr. Lo Hung and Ms. Leung Siu Lin, Esther, respectively.

Save as disclosed in notes 22, 23 and 35, there were no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years ended 30 April 2015, 2016 and 2017.

35 Related party transactions

- (a) The directors of the Company are of the view that the following parties/companies were related parties that had transaction or balances with the Group during the Track Record Period:

Name of related parties	Relationship with the Group
Mr. Lo Hung	Controlling shareholder and executive director of the Company
Ms. Leung Siu Lin, Esther	Controlling shareholder and executive director of the Company
Mr. Lo Shiu Kee, Kenneth	Controlling shareholder and executive director of the Company
Ms. Lo Shiu Shan, Suzanne	Controlling shareholder and executive director of the Company
Ms. Sin Lo Siu Wai, Sylvia	Controlling shareholder and executive director of the Company
Esther & Victor Limited	Controlled by the Controlling Shareholders
Top Dragon Enterprise Investment Limited	Controlled by the Controlling Shareholders
Easy Bloom Limited	Controlled by the Controlling Shareholders
Kid Child Limited	Controlled by the Controlling Shareholders
Rank Power Limited	Controlled by the Controlling Shareholders
Grand Fancy Investment Limited	Controlled by the Controlling Shareholders
Glory Great Investment Limited	Controlled by the Controlling Shareholders
Concept Max Investment Limited	Controlled by the Controlling Shareholders
Brilliant Huge Limited	Controlled by the Controlling Shareholders

(b) Transactions with related parties

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Continuing transactions:			
Operating lease expense for office paid to Top Dragon Enterprise Investment Limited (note (i))	<u>(5,760)</u>	<u>(5,760)</u>	<u>(5,760)</u>
Discontinued transactions:			
Management fee income from Top Dragon Enterprise Investment Limited (note (ii))	420	420	—
Director's quarter leasing expense paid to Esther & Victor Limited (note (i))	(1,140)	—	—
Director's quarter leasing expense paid to Kid Child Limited (note (i))	(180)	—	—
Director's quarter leasing expense paid to Rank Power Limited (note (i))	(270)	—	—
Management fee income from Easy Bloom Limited (note (ii))	—	—	—
Interest income from Top Dragon Enterprise Investment Limited (note (iii))	2,832	1,114	—
Motor vehicle leasing charges paid to Kid Child Limited (note (iv))	(171)	(108)	—
Transportation services expenses recharged to Kid Child Limited (note (v))	165	108	—
Sale of pleasure boat to Esther & Victor Limited (note (vi))	<u>22,655</u>	<u>—</u>	<u>—</u>

Notes:

- (i) Office and directors' quarter leasing expenses were paid at terms mutually agreed with the relevant parties involved.
- (ii) Management fee income were received for service provided at rate mutually agreed between the relevant parties involved in the transactions. The provision of service was terminated from 1 May 2016.
- (iii) Interest income were received at rates mutually agreed between relevant parties involved (note 22).
- (iv) Motor vehicle leasing charges were paid at terms mutually agreed with the relevant parties involved.
- (v) Transportation service expenses are recharged to the party involved for actual cost incurred.
- (vi) The pleasure boat was sold at the carrying value with no gain or loss as at the disposal date.

(c) Year-end balances with related parties

	Note	As at 30 April		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Loan to a related company				
Top Dragon Enterprise Investment Limited	22	<u>72,634</u>	<u>10,261</u>	<u>—</u>
Amounts due from related companies				
Top Dragon Enterprise Investment Limited		13,181	62,447	—
Esther & Victor Limited		3,012	52,491	90,194
Easy Bloom Limited		39	41	—
Kid Child Limited		17,094	17,541	—
Rank Power Limited		16,963	19,235	—
Concept Max Investment Limited		63	78	—
Brilliant Huge Limited		11	11	—
Glory Great Investment Limited		<u>2,634</u>	<u>2,634</u>	<u>—</u>
	22	<u>52,997</u>	<u>154,478</u>	<u>90,194</u>
		<u>125,631</u>	<u>164,739</u>	<u>90,194</u>
Amounts due to related companies				
Esther & Victor Limited		(33,908)	(33,764)	—
Grand Fancy Investment Limited		<u>(4,727)</u>	<u>(4,726)</u>	<u>—</u>
	22	<u>(38,635)</u>	<u>(38,490)</u>	<u>—</u>
Loan due from a shareholder classified as financial assets at fair value through profit or loss				
Ms. Leung Siu Lin, Esther	23	<u>14,584</u>	<u>—</u>	<u>—</u>
Amounts due from shareholders				
Mr. Lo Shiu Kee, Kenneth		7,252	7,252	169
Ms. Leung Siu Lin, Esther		<u>—</u>	<u>—</u>	<u>—</u>
	22	<u>7,252</u>	<u>7,252</u>	<u>169</u>
Amounts due to shareholders				
Ms. Leung Siu Lin, Esther		(13,362)	(6,020)	—
Ms. Lo Shiu Shan, Suzanne		(237)	(237)	—
Ms. Sin Lo Siu Wai, Sylvia		<u>(159)</u>	<u>(159)</u>	<u>—</u>
	22	<u>(13,758)</u>	<u>(6,416)</u>	<u>—</u>

The amounts of HK\$72,634,000 and HK\$10,261,000 due from Top Dragon Enterprise Investment Limited as at 30 April 2015 and 2016 carried interest rate of 3.67% and 5.25% per annum, respectively and the amounts due from Ms. Leung Siu Lin, Esther for HK\$14,584,000 as at 30 April 2015, were due when the Currencies Forward matured or terminated.

Except as disclosed, the balances due with related parties are unsecured, interest free and repayable on demand. The amounts due from related parties are neither past due nor impaired. The carrying amounts of the amounts due from/(to) related parties approximate their fair values and are denominated in US\$ and HK\$ (note 22).

(d) *Key management compensation*

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and bonus	7,107	7,251	7,405
Retirement benefits	142	144	144
Other benefits	2,083	492	240
	<u>9,332</u>	<u>7,887</u>	<u>7,789</u>

(e) *Other arrangement*

Banking facilities available to the Group were guaranteed by Mr. Lo Hung and Ms. Leung Siu Shan, Esther as at 30 April 2015, 2016 and 2017. All such guarantees are expected to be released and be replaced by the corporate guarantee provided by the Company upon listing.

36 Contingent liabilities

As at 30 April 2015, 2016 and 2017, the Group has contingent liabilities as follows:

	As at 30 April		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Irrevocable standby letter of credit	<u>2,071</u>	<u>2,776</u>	<u>3,891</u>

37 Subsequent events

The following significant event took place subsequent to 30 April 2017:

(a) *Capitalisation issue*

Pursuant to the resolutions of the shareholders passed on 31 August 2017, subject to the share premium account of the Company being credited as a result of the issue of shares under the global offering, the directors are authorised to allot and issue a total of 749,990,000 shares credited as fully paid at par to KLH Capital Limited by way of capitalisation of HK\$74,999,000 standing to the credit of the share premium account of the Company.

(b) The directors of the Company intend to declare a dividend of HK\$100,000,000 prior to the Listing.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2017 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2017.

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to owners of the Company as of 30 April 2017 as if the Global Offering had taken place on 30 April 2017 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 April 2017 or at any future dates following the Global Offering. It is prepared based on the consolidated net tangible assets of the Group as at 30 April 2017 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2017 (Note 1) HK\$'000	Estimated net proceeds from the Global Offering (Note 2) HK\$'000	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 30 April 2017 HK\$'000	Unaudited pro forma adjusted net tangible assets per Share (Note 3) HK\$
Based on an Offer Price of HK\$0.40 per Share	114,923	84,258	199,181	0.20
Based on an Offer Price of HK\$0.50 per Share	114,923	108,506	223,429	0.22

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 30 April 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 30 April 2017 of HK\$143,932,000 with an adjustment for the intangible assets as at 30 April 2017 of HK\$29,009,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$0.40 and HK\$0.50 per Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK\$17,266,000 which have been accounted for in the consolidated statement of comprehensive income prior to 30 April 2017) paid/payable by the Company and takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Share Issue Mandate and the Share Buy-back Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 30 April 2017 but takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the Share Issue Mandate and the Share Buy-back Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2017. The unaudited pro forma adjusted net tangible assets have not been adjusted for a dividend of HK\$100,000,000 to be declared prior to the Listing. Had the dividend been taken into account, the unaudited pro forma adjusted net tangible asset per Share would have been reduced to HK\$0.10 and HK\$0.12 based on the Offer Price of HK\$0.40 per Share and HK\$0.50 per Share respectively.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Kiddieland International Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kiddieland International Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 April 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 11 September 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 April 2017 as if the proposed initial public offering had taken place 30 April 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 30 April 2017 on which an accountant's report has been published.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888*

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 April 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 11 September 2017

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 July 2017 of the properties interests held by the Group.



利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL SERVICES VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2017 (“IVS”) and published by the International Valuation Standards Council which followed by the HKIS Valuation Standards 2012 Edition (the “HKIS Standards”) and published by The Hong Kong Institute of Surveyors (the “HKIS”). The standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the Latest Practicable Date of this document. If additional documents and facts are made available, we reserve the right to amend this report and its conclusions.

17th Floor
Champion Building
287–291 Des Voeux Road Central
Hong Kong

11 September 2017

The Board of Directors
Kiddieland International Limited
14th Floor, Bank of America Tower
12 Harcourt Road, Central
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of Kiddieland International Limited (hereinafter referred to as the “Instructing Party”) to us to conduct a valuation of a designated *real property* (same as the word *property* in this report) in which Kiddieland International Limited (hereinafter referred to as the “Company”) and its subsidiaries (collectively, together with the Company hereinafter referred to as the “Group”) have property interests in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”) and, to report the existing status of material property

interests rented by the Group in the PRC, we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of value of the property of the Group as at 31 July 2017 (hereinafter referred to as the “Valuation Date”) for the Instructing Party’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party’s due diligence but we have not been engaged to make specific sales or purchase recommendations, or to give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the property valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of value of the property interest are documented in a narrative valuation report and submitted to the Instructing Party at today’s date.

At the request of the Instructing Party, we prepared this summary report (including this letter, summary of values and the valuation certificate) to summarise our findings and conclusion of value as documented in the valuation report for the purpose of inclusion in this prospectus at today’s date (the “Prospectus”) for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also apply to this summary report.

VALUATION OF PROPERTY IN GROUP I

Basis of Value

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we were instructed to provide our opinion of value of the property on the market value basis.

The term “Market Value” is defined by the IVS and the HKIS Standards as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

However, as detailed in “Our Properties” under the Business section of the Prospectus, the property did not possess the relevant State-owned Land Use Rights Certificate or Real Estate Ownership Certificate as at the Valuation Date, we have assigned no commercial value to the property.

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

REPORTING OF LEASEHOLD PROPERTY INTERESTS IN GROUP II

Property in Group II is subject to leasehold arrangements, and we have assigned no commercial value to the property interests due mainly to its leasehold nature or prohibition against assignment or sub-letting or lack of substantial rents.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided, and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuation accordingly.

As at the Latest Practicable Date of this Prospectus, we are unable to identify any adverse news against the property which may affect the reported findings or value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the property. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the findings or value reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the Instructing Party or the appointed personnel of the Company provided us the necessary documents to support that the legally interested party in each of the properties has free and uninterrupted rights to assign, to mortgage or to let the property at its existing use (in this instance, an absolute title), for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Group has the right to occupy and to use the properties. Our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have been provided with copies of the documents of the properties. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and relied solely on the copies of document and the copy of the PRC legal opinions provided by the Instructing Party with regard to the legal title of the properties. We are given to understand that the PRC legal opinion was prepared by the Company’s PRC legal adviser, Dentons dated 11 September 2017. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the legally interested party in each of the properties has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue its titles in the property. Should this not be the case, it will affect our opinion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability from our part is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

The properties were inspected by Ms. Summer Yu, our graduate surveyor, in June 2017. We have inspected the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advise upon the condition of uninspected parts and the attached valuation certificate should not be taken as making any implied representation or statement about such parts. No building survey, structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the properties. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the floor areas of the properties, but have assumed that the floor areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the property that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the properties, or have since been incorporated into the properties, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such materials to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported, if any.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our works, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the appointed personnel of the Instructing Party or the Company.

We have relied solely on the full property list and information provided by the appointed personnel of the Instructing Party or the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, letting, occupation, site and floor areas and all other relevant matters. The Instructing Party confirmed to us that the Group has no other property interest in addition to the properties disclosed in our report and “Our Properties” under the Business section of the Prospectus.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the appointed personnel of the Instructing Party or the Company in our valuation, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the appointed personnel of the Instructing Party or the Company. Also, we have sought and received confirmation from the appointed personnel of the Instructing Party or the Company that no materials factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the appointed personnel of the Instructing Party or the Company of material and latent facts that may affect the valuation.

We have had no reason to doubt the truth and accuracy of the information provided to us by the appointed of the Instructing Party or the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of value of the property in this summary report is valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and we accept no responsibility whatsoever to any other person.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the property, and that the inspection and the use of this report do not purport to be a building survey of the property. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this Prospectus to the Company's shareholders' reference.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, shall where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party and the Company are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our reports including this summary report is prepared in line with the requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules (as defined in this Prospectus) as well as the reporting guidelines contained in the IVS and HKIS Standards. The valuation has been undertaken by us, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this report together with the data provided by the Instructing Party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis and valuation of the property depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the properties, the Group or the value reported.

The summary of values and the valuation certificate is attached.

Yours faithfully,

For and on behalf of

LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS (GP)*

Executive Director

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Group I — Property held and occupied by the Group in the PRC and valued on market value basis

Property	Amount of valuation in its existing state as at 31 July 2017	Interest of the Group	Amount of valuation in its existing state attributable to the Group as at 31 July 2017
1. A factory complex located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	Nil	100 per cent.	Nil
		Sub-total	<u>No Commercial Value</u>

Group II — Property held by the Group under leasehold arrangement in the PRC

Property	Amount of valuation in its existing state attributable to the Group as at 31 July 2017
2. Various buildings erected on the land adjacent to Property No. 1 above and located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	Nil
	Sub-total <u>No Commercial Value</u>
	Grand total <u><u>No Commercial Value</u></u>

VALUATION CERTIFICATE

Group I — Property held and occupied by the Group in the PRC and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 31 July 2017
1. A factory complex located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	<p>The property comprises a parcel of land having a site area of approximately 37,616 sq. m. with 5 major buildings and structures erected thereon. (see Notes 1 to 4)</p> <p>The major buildings are of single to 3-storey in height and were completed between 1998 and 2001. They have a total gross floor area of approximately 37,204.25 sq. m. (see Notes 5 and 7)</p> <p>The property is located in an urban area and surrounded by mixed developments.</p>	As inspected and confirmed by the Instructing Party and the appointed personnel of the Company, the property was occupied by the Group for production, warehouse, office and storage purposes as at the Valuation Date.	No Commercial Value (see Note 10 below)

Notes:

- Pursuant to a Contract for the Compensated Use of Land dated 1 December 1997 and made between Dongguan City Tangxia Town Economic Development Company (hereinafter referred to as "Economic Development Company") and Kiddieland Industrial Limited (hereinafter referred to as "Kiddieland Industrial"), and a supplemental agreement dated 29 September 2013 and made between Economic Development Company, Kiddieland Industrial together and 東莞塘廈童園玩具廠 (translated as Dongguan Tangxia Kiddieland Toy Factory and hereinafter referred to as "DG Kiddieland Factory"), DG Kiddieland Factory shall have the land use rights of the land parcel having a site area of approximately 90,000 sq. m., in which the land of the property forms part, for a term of 50 years from 1 December 1997 to 30 November 2047. However, according to the legal opinion prepared by the Company's PRC legal adviser, the above agreements were invalid. The land was resumed by the respective interested parties of the land, namely The Fifth Joint-equity Economic Cooperative of Dongguan City Tangxia Town Pingshan Region (hereinafter referred to as "Pingshan Economic Cooperative") and Dongguan City Tangxia Town Qinghutou Joint-equity Economic Union (hereinafter referred to as "Qinghutou Economic Union"). Details of the historical background of the land issue are set out in the section titled "Our Properties" under the section headed "Business" of the Company's prospectus dated 11 September 2017.
- Pursuant to a Decision on Administrative Penalty issued by Dongguan City State-owned Land Resources Bureau on 5 September 2016, 東莞童園實業有限公司 (translated as Dongguan Kiddieland Industrial Co., Ltd. and hereinafter referred to as "DG Kiddieland Industrial") occupied a parcel of land with site area of 91,879 sq.m. for establishment of its production plants and ancillary facilities during December 1997 to November 2007. However the procedures to obtain the rights to use the relevant land have not been complied with and DG Kiddieland Industrial was ordered to return the land to the owners of the land. As advised, the 91,879 sq.m. land covers this property and the Property No. 2 mentioned below.
- Pursuant to an agreement dated 27 December 2016 and entered into between DG Kiddieland Industrial and Pingshan Economic Cooperative, both parties agreed that having considered DG Kiddieland Industrial has made supplemental application to obtain the State-owned Land Use Rights certificate of a land parcel with site area of 23,503.3 sq. m., Pingshan Economic Cooperative confirmed the buildings erected on such portion of land shall belong to DG Kiddieland Industrial.
- Pursuant to an agreement dated 13 January 2017 and entered into between DG Kiddieland Industrial and Qinghutou Economic Union, both parties agreed that having considered DG Kiddieland Industrial has made supplemental application to obtain the State-owned Land Use Rights certificate of a land parcel with site area of 14,112.7 sq. m., Qinghutou Economic Union confirmed the buildings erected on such portion of land shall belong to DG Kiddieland Industrial.

5. As advised, the subject buildings and structures are situated on the land mentioned on Notes 3 and 4 above.
6. According to our on-site inspection and information provided by the appointed personnel of the Company, there are 5 various major buildings and structures having a gross floor area of approximately 37,204.25 sq. m. erecting on the land of the property. The area breakdowns of the buildings and structures are listed as follows:

	Year of Completion	Gross Floor Area (sq.m.)
(i) Two 2-storey and a 3-storey Workshops (Factory Block Nos. A, B and C)	1998	27,000.00
(ii) A 2-storey Workshop (Factory Block No. D)	2001	10,000.00
(iii) A single storey electricity room	1998	<u>204.25</u>
	Total:	<u><u>37,204.25</u></u>

7. According to the information provided, the buildings and structures mentioned above possess the following permit/certificate:

Building/Structure	Planning Permit for Construction Project 建設工程規劃許可證	Construction Permit for Construction Project 建築工程施工許可證	Completion and Acceptance Permit for Construction Project 建築工程竣工驗收證
(i) Factory Block Nos. A, B and C	Yes	Yes	Yes
(ii) Factory Block No. D	No	No	No
(iii) Electricity Room	Yes	Yes	Yes

8. Pursuant to a copy of the Business Licence (營業執照) dated 20 January 2014, DG Kiddieland Industrial is a limited liability company registered in the PRC for an operational period commencing from 20 January 2014 to 20 January 2064.
9. According to the legal opinion as prepared by the Company's PRC legal adviser, the following opinions are noted:
- (i) According to the Land Administration Law of the PRC effective at the time signing the land use agreement mentioned in Note 1 above, the land use agreements were invalid;
- (ii) DG Kiddieland Industrial is in the process of applying the relevant land use rights certificate and real estate ownership certificate of the property (mentioned in Notes 3 and 4 above); and
- (iii) According to an interview with the relevant authority, there should have no material legal impediment for DG Kiddieland Industrial to obtain the relevant title certificate of the property.
10. As DG Kiddieland Industrial did not obtain the relevant title certificate to the property as at the Valuation Date, no commercial value was assigned to the property. For information purpose, if the relevant title certificate was obtained and the property could be freely transferred as at the Valuation Date, the amount of valuation of the property would be in the region of RMB62,100,000.

VALUATION CERTIFICATE

Group II — Property held by the Group under leasehold arrangement in the PRC

Property	Description and occupancy	Amount of valuation in its existing state attributable to the Group as at 31 July 2017
2. Various buildings erected on the land adjacent to Property No. 1 above and located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	<p>The property comprises 10 various buildings which were completed in between 1998 to 2010 and erected on a site having an area of about 54,263 sq.m. (see Notes 1 and 2 below).</p> <p>According to the information made available to us, the property has a gross floor area of approximately 38,972 sq.m. for workshops, warehouse, dormitory and other supporting facilities. <i>(See Note 3)</i></p> <p>The property is granted to the Group for usage at nil rental under 2 various agreements. <i>(See Notes 1 and 2)</i></p> <p>The property was occupied by the Group for production, storage, staff quarters and other supporting purposes as at the Valuation Date.</p> <p>The property is located in an urban area and surrounded by mixed developments.</p>	No Commercial Value

Notes:

- Pursuant to an agreement dated 27 December 2016 and entered in between Pingshan Economic Cooperative and 東莞童圍實業有限公司 (translated as Dongguan Kiddieland Industrial Co., Ltd. and hereinafter referred to as "DG Kiddieland Industrial") and Pingshan Economic Cooperative, the legally interested party in the remaining land of 41,514.1 sq.m. ("Remaining Land 1") (that is 65,017.4 sq.m. minus 23,503.3 sq.m., the land covered in Property No. 1 above) and the buildings erected thereon is Pingshan Economic Cooperative. Pingshan Economic Cooperative agreed to grant the rights to use the buildings erected on the Remaining Land 1 to DG Kiddieland Industrial at nil compensation for a term till 30 November 2047.
- Pursuant to an agreement dated 13 January 2017 and entered in between DG Kiddieland Industrial and Qinghutou Economic Union, the legally interested party in the remaining land of 12,748.7 sq.m. ("Remaining Land 2") (that is 26,861.4 sq.m. minus 14,112.7 sq.m., the land covered in Property No. 1 above) and the buildings erected thereon is Qinghutou Economic Union. Qinghutou Economic Union agreed to lease the buildings erected on the Remaining Land 2 to DG Kiddieland Industrial at nil rental for a term of 20 years and thereafter shall be automatically renewed to 30 November 2047.

3. According to the information provided, the property includes the following buildings/structures:

Building/Structure	Approximately Gross Floor Area (sq.m.)
(i) Factory Block No. E (Workshops and warehouse)	13,763
(ii) Factory Block No. F (Warehouse)	11,630
(iii) Staff dormitory Blocks A to E	11,622
(iv) Canteen	1,404
(v) Garbage room	315
(vi) Garage	<u>238</u>
Total:	<u><u>38,972</u></u>

4. According to the legal opinion as prepared by the Company's PRC legal adviser, the agreements mentioned in Notes 1 and 2 above are considered as rental agreement at nil rental. The agreements are legal and valid, save as disclosed in section titled "Our Properties" under the section headed "Business" of the Prospectus.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 June 2016 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 31 August 2017. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by

proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board

shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 3 June 2016 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and

- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 12 July 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the

dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI of this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 June 2016. The registered office of our Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. We have established a place of business in Hong Kong at 14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong and have been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance since 1 August 2016. In connection with such registration, Mr. Kenneth Lo has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on our behalf in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising the Memorandum and the Articles. A summary of various provisions of our Company's constitution and certain relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

As at the date of incorporation of our Company, our authorised share capital was HK\$380,000 consisting of 3,800,000 Shares of HK\$0.10 each. 1 subscriber's Share was allotted and issued fully paid to the subscriber on 3 June 2016, which subscriber's Share was transferred to KLH Capital on 3 June 2016.

On 23 January 2017, our Company allotted and issued a total of 9,999 Shares to KLH Capital credited as fully paid at the direction of the Lo's Family in consideration of the Lo's Family transferring all the issued shares of Kiddieland Group to our Company.

On 31 August 2017, the authorised share capital of our Company was increased to HK\$1,000,000,000 consisting of 10,000,000,000 Shares.

Assuming that the Global Offering and the Capitalisation Issue becomes unconditional and the issue of the Shares mentioned herein are made, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the authorised share capital of our Company will be HK\$1,000,000,000 consisting of 10,000,000,000 Shares and the issued share capital of our Company will be HK\$100,000,000 consisting of 1,000,000,000 Shares fully paid or credited as fully paid, with 9,000,000,000 Shares remaining unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option, there is no present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Written resolution of our sole Shareholder passed on 23 January 2017

On 23 January 2017, written resolution of our sole Shareholder was passed pursuant to which, amongst others, our Directors were authorised to allot and issue 9,999 Shares to KLH Capital as consideration for the acquisition by our Company of the entire issued share capital of Kiddieland Group from the Lo's Family.

4. Written resolutions of our sole Shareholder passed on 31 August 2017

On 31 August 2017, written resolutions of our sole Shareholder were passed pursuant to which, amongst others:

- (a) the authorised share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,996,200,000 Shares;
- (b) conditional on (A) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Global Offering and the Capitalisation Issue, or upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) and (B) the obligations of the Underwriters under each of the Underwriting Agreements having become unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (for itself on behalf of the other Underwriters)) and not having been terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case on or before the dates and times specified in the respective Underwriting Agreements,
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and any Shares which may be required to be issued if the Over-allotment Option is exercised;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares issued pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the issue of Shares under the Global Offering, our Directors were authorised to capitalise the sum of HK\$74,999,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,990,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on 31 August 2017 (or as they may direct), in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing respective

shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respect with the then existing issued Shares and our Directors were authorised to give effect to the Capitalisation Issue;

- (c) a general unconditional mandate was given to our Directors to allot, issue and deal with (otherwise than pursuant to (i) a rights issue, (ii) an issue of Shares upon the exercise of the Over-allotment Option or upon the exercise of any subscription or conversion rights attaching to any bonds, warrants, debentures, notes or any securities which carry rights to subscribe for or are convertible into Shares, (iii) an issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to eligible participant of the Share Option Scheme or any other person of Shares or rights to acquire Shares, (iv) any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or (v) a specific authority granted by the Shareholders in general meeting) Shares not exceeding 20% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares that may be issued upon exercise of the Over-allotment Option (subject to adjustment in the total number of issued shares of the Company in the case of consolidation or sub-division of shares of the Company during the Issue Mandate Relevant Period (as defined below)), and to make or grant offers, agreements and options (including but not limited to bonds, warrants, debentures, notes and any securities which carry rights to subscribe for or are convertible into Shares) which would or might require the exercise of such power to issue Shares either during or after the end of the Issue Mandate Relevant Period, such mandate to remain in effect during the period (the “**Issue Mandate Relevant Period**”) from the passing of the resolution granting such mandate, until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the end of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;
- (d) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose), subject to and in accordance with the Code on Share Buy-backs, all applicable laws and the requirements of the Listing Rules or of any other stock exchange as amended from time to time, such number of Shares not exceeding 10% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares that may be issued upon exercise of the Over-allotment Option (such 10% being 100,000,000 Shares) (subject to adjustment in the total number of issued shares of the Company in the case of consolidation or sub-division of shares of the Company during the Buy-back Mandate

Relevant Period (as defined below)), such mandate to remain in effect during the period (the “**Buy-back Mandate Relevant Period**”) from the passing of the resolution granting such mandate until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the end of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate (the “**Share Buy-back Mandate**”);
- (e) the general unconditional mandate mentioned in paragraph (c) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of a number representing the aggregate number of Shares purchased by our Company pursuant to the Share Buy-back Mandate, provided that such extended number shall not exceed 10% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares that may be issued upon exercise of the Over-allotment Option (such 10% being 100,000,000 Shares) (subject to adjustment in the total number of issued shares of the Company in the case of consolidation or sub-division of shares of the Company during the Issue Mandate Relevant Period); and
- (f) our Company approved and adopted the Memorandum and the Articles conditional upon and with effect from the Listing Date.

5. Corporate reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the Listing. The reorganisation involved the following:

- (a) On 3 June 2016, our Company was incorporated under the laws of the Cayman Islands with an authorised share capital of HK\$380,000 consisting of 3,800,000 Shares and on 3 June 2016, 1 subscriber’s Share was allotted and issued fully paid to the subscriber. On 3 June 2016, 1 subscriber’s Share was transferred to KLH Capital.
- (b) On 30 May 2016, Kiddieland Group was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued 1 share in Kiddieland Group.
- (c) On 30 May 2016, Kiddieland Trading was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued 1 share in Kiddieland Trading and on 20 July 2016, Ms. Esther Leung subscribed for and was allotted and issued 1 share in Kiddieland Trading.

- (d) On 30 May 2016, Kiddieland Manufacturing was incorporated under the laws of the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 30 May 2016, Mr. Victor Lo subscribed for and was allotted and issued 1 share in Kiddieland Manufacturing and on 20 July 2016, Ms. Esther Leung subscribed for and was allotted and issued 1 share in Kiddieland Manufacturing.
- (e) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Trading acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of Kiddieland Toys from Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$3,375,253.25, HK\$3,375,253.25, HK\$3,375,253.25, HK\$1,687,626.625 and HK\$1,687,626.625 respectively, which consideration was satisfied by the allotment and issue by Kiddieland Trading of 2,400, 2,400, 2,400, 1,249 and 1,249 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.
- (f) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo pursuant to which Kiddieland Trading acquired 3,334, 3,333 and 3,333 shares of W. Great Worth from Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively at the consideration of HK\$33.34, HK\$33.33 and HK\$33.33 respectively.
- (g) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo pursuant to which Kiddieland Trading acquired shares of Kiddieland US from Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively at the consideration of US\$46,306, US\$46,306 and US\$46,306 respectively, which consideration was satisfied by the allotment and issue by Kiddieland Trading of 100, 100 and 100 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively, all credited as fully paid.
- (h) On 23 January 2017, Kiddieland Trading entered into a sale and purchase agreement with Mr. Kenneth Lo pursuant to which Kiddieland Trading acquired 100 shares of Kiddieland UK from Mr. Kenneth Lo at the consideration of HK\$100.
- (i) On 23 January 2017, Kiddieland Manufacturing entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Manufacturing acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of Kiddieland Industrial from each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$39,779,182.75, HK\$39,779,182.75, HK\$39,779,182.75, HK\$19,889,591.375 and HK\$19,889,591.375 respectively, which consideration was satisfied by the allotment and issue by Kiddieland Manufacturing of 2,500, 2,500, 2,500, 1,249 and 1,249 shares in Kiddieland Manufacturing to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.

- (j) On 23 January 2017, Kiddieland Manufacturing entered into a sale and purchase agreement with Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Manufacturing acquired 5,000 and 5,000 shares of Innotech from Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$50 and HK\$50 respectively.
- (k) On 23 January 2017, Kiddieland Group entered into a sale and purchase agreement with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which Kiddieland Group acquired 2,500, 2,500, 2,500, 1,250 and 1,250 shares of each of Kiddieland Trading and Kiddieland Manufacturing from each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively at the consideration of HK\$43,423,644.625, HK\$43,423,644.625, HK\$43,423,644.625, HK\$21,711,832.3125 and HK\$21,711,832.3125 respectively, which consideration was satisfied by the allotment and issue by Kiddieland Group of 2,500, 2,500, 2,500, 1,249 and 1,250 shares in Kiddieland Group to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid.
- (l) On 23 January 2017, our Company entered into a deed for sale and purchase with Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung pursuant to which our Company acquired from each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Group respectively in consideration of the allotment and issue by our Company of in aggregate 9,999 Shares to KLH Capital credited as fully paid at the direction of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung.
- (m) On 31 August 2017, the authorised share capital of our Company was increased from HK\$380,000 consisting of 3,800,000 Shares to HK\$1,000,000,000 consisting of 10,000,000,000 Shares.

6. Changes in the share capital of our subsidiaries

Our subsidiaries are referred to in the accountants' report for our Company, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of our subsidiaries have taken place within the two years preceding the date of this prospectus:

(a) *Kiddieland Trading*

- (i) On 30 May 2016, Kiddieland Trading allotted and issued 1 share of US\$1.00 to Mr. Victor Lo for cash at US\$1.00.
- (ii) On 20 July 2016, Kiddieland Trading allotted and issued 1 share of US\$1.00 to Ms. Esther Leung for cash at HK\$500.
- (iii) On 23 January 2017, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung were allotted and issued 2,400, 2,400, 2,400, 1,249 and 1,249 shares in Kiddieland Trading respectively in consideration for the transfer by them to Kiddieland Trading of 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Toys

respectively pursuant to a sale and purchase agreement dated 23 January 2017 as referred to in paragraph (e) under the paragraph headed “Corporate reorganisation” in this Appendix.

- (iv) On 23 January 2017, Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo were allotted and issued 100, 100 and 100 shares in Kiddieland Trading respectively in consideration for the transfer by them to Kiddieland Trading of 20, 20 and 20 shares in Kiddieland US respectively pursuant to a sale and purchase agreement dated 23 January 2017 as referred to in paragraph (g) under the paragraph headed “Corporate reorganisation” in this Appendix.

(b) Kiddieland Manufacturing

- (i) On 30 May 2016, Kiddieland Manufacturing allotted and issued 1 share of US\$1.00 to Mr. Victor Lo for cash at US\$1.00.
- (ii) On 20 July 2016, Kiddieland Manufacturing allotted and issued 1 share of US\$1.00 to Ms. Esther Leung for cash at HK\$500.
- (iii) On 23 January 2017, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung were allotted and issued 2,500, 2,500, 2,500, 1,249 and 1,249 shares in Kiddieland Manufacturing respectively in consideration for the transfer by them to Kiddieland Manufacturing of 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Industrial respectively pursuant to a sale and purchase agreement dated 23 January 2017 as referred to in paragraph (i) under the paragraph headed “Corporate reorganisation” in this Appendix.

(c) Kiddieland Group

- (i) On 30 May 2016, Kiddieland Group allotted and issued 1 share of US\$1.00 to Mr. Victor Lo for cash at US\$1.00.
- (ii) On 23 January 2017, Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung were allotted and issued 2,500, 2,500, 2,500, 1,249 and 1,250 shares in Kiddieland Group respectively in consideration of the transfer by them to Kiddieland Group of (i) 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Trading respectively and (ii) 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Manufacturing respectively pursuant to a sale and purchase agreement dated 23 January 2017 as referred to in paragraph (k) under the paragraph headed “Corporate reorganisation” in this Appendix.

(d) DG Kiddieland Industrial

On 1 September 2016, the registered capital of DG Kiddieland Industrial was increased from HK\$46,000,000 to HK\$54,000,000.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

7. Purchase by our Company of its own shares

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions, some of which are summarised below:

(i) *Shareholders' approval*

All proposed purchases of securities on the Stock Exchange by a company must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to a particular transaction.

Note: Pursuant to the written resolutions passed by our sole Shareholder on 31 August 2017, the Share Buy-back Mandate was granted to our Directors authorising the purchase of Shares by our Company as described above in the paragraph headed "Written resolutions of our sole Shareholder passed on 31 August 2017" in this Appendix.

(ii) *Source of funds*

Buy-backs made by the Company must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands in force from time to time. A listed company may not purchase its securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange prevailing from time to time.

(iii) *Trading restrictions*

The total number of shares which a listed company may buy back on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed new issue of securities for a period of 30 days immediately following any purchase by it (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such purchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from purchasing its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from purchasing its securities if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect the purchases of its securities discloses to the Stock Exchange such information with respect to such purchases made on behalf of such company as the Stock Exchange may request.

(iv) Status of purchased shares

The listing of all securities which are purchased by a listed company (whether on the Stock Exchange or otherwise) shall be automatically cancelled upon purchase and the certificates for those purchased securities must be cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase.

(v) Suspension of buy-back

A listed company shall not make any purchase of its securities at any time after inside information has come to its knowledge, until such information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for a listed company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, such listed company may not purchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a listed company from purchasing its shares on the Stock Exchange if the Stock Exchange considers that such listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to purchase of its shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding such purchases of securities made during the financial year under review, including a monthly breakdown of purchase of securities, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid for such purchases. The directors' report shall contain references to the purchases made during the year and the directors' reasons for making such purchases.

(vii) Connected persons

A listed company is prohibited from knowingly purchasing its shares on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates, and a core connected person is prohibited from knowingly selling securities to the listed company on the Stock Exchange.

(b) Exercise of the Share Buy-back Mandate

Exercise in full of the Share Buy-back Mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and

any options which may be granted under the Share Option Scheme), would accordingly result in up to 100,000,000 Shares being purchased by our Company during the course of the period prior to the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles and the applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Share Buy-back Mandate by ordinary resolution of our Shareholders in general meeting.

(c) *Reasons for purchases*

Purchases of Shares will only be made when our Directors believe that such a purchase will benefit our Company and our Shareholders as a whole. Such buy-backs may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of our Company and/or its earnings per Share.

(d) *Funding of purchases*

In purchasing its Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles and the applicable laws and regulations of the Cayman Islands in force from time to time. Pursuant to the Share Buy-back Mandate, purchases will be made out of funds of our Company legally permitted to be utilised in this connection, including profit or share premium of our Company or out of a fresh issue of Shares made for the purpose of the purchase or subject to the Companies Law and if so authorised by the Articles, out of capital. In the case of any premium payable on the purchase, out of the profit of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital of our Company. Our Company may not purchase its Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) *General*

No purchase of its Shares had been made by our Company since incorporation.

There might be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Share Buy-back Mandate is exercised in full. However, our Directors do not propose to exercise the Share Buy-back Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or on its gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Share Buy-back Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention, if the Share Buy-back Mandate is approved by our Shareholders, to sell any Shares to our Company.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell any Shares to our Company, or has undertaken not to do so, if the Share Buy-back Mandate is exercised.

If as a result any buy-back of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interest of our Shareholder(s), could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code as a result of a buy-back of Shares made after the Listing.

If the Share Buy-back Mandate is fully exercised immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the total number of Shares which will be purchased pursuant to the Share Buy-back Mandate will be 100,000,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions). The percentage shareholding of KLH Capital, our Controlling Shareholder, will be increased to approximately 83.3% of the issued share capital of our Company immediately following the full exercise of the Share Buy-back Mandate. In such event, the public float of our Company will fall below 25% and our Company will take necessary steps to maintain the public float. Our Directors will also take all steps necessary to comply with the Listing Rules.

Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a purchase of Shares made pursuant to the Share Buy-back Mandate immediately after the Listing. Our Directors have no intention to purchase any Shares to the extent that it will cause the public float of our Company to fall below 25%.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a service contract dated 22 January 2014 between DG Kiddieland Industrial and 東莞市塘廈鎮人民政府對外貿易經濟合作局 (Dongguan Tangxia Bureau of Foreign Trade and Economic Cooperation) (“**Dongguan Tangxia BOFTEC**”) for a term commencing from 21 January 2014 to 20 January 2064 pursuant to which Dongguan Tangxia BOFTEC shall assist DG Kiddieland Industrial with its incorporation and set up and application for change of business licence, application and verification of production contracts as well as customs clearance for imports and exports and DG Kiddieland Industrial shall pay to Dongguan Tangxia BOFTEC a service fee equal to 75% of 4‰ of the export value of DG Kiddieland Industrial;
- (b) a land expropriation compensation agreement dated 27 December 2016 between DG Kiddieland Industrial and Pingshan Economic Cooperative pursuant to which (i) DG Kiddieland Industrial shall pay land expropriation compensation of RMB4,230,540.00 in total to Pingshan Economic Cooperative in relation to the 23,503 sq. m. of land located at Ping Shan Community Shi Zai Ao (Tu Ming)* (平山社區石仔坳(土名)) and (ii) prior to DG Kiddieland Industrial obtaining the relevant state-owned land use right certificates and real estate ownership certificate in respect of such land and the buildings erected thereon, it may continue to use such land without any interference from the Pingshan Economic Cooperative;
- (c) the Pingshan Agreement dated 27 December 2016 between DG Kiddieland Industrial and Pingshan Economic Cooperative whereby the parties agreed that as DG Kiddieland Industrial will make supplemental application to obtain the land use rights certificate of the portion (with site area of 23,503.3 sq. m.) of Production Plant Land owned by Pingshan Economic Cooperative and the real estate ownership certificate in respect of the buildings erected thereon, (i) the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; and (ii) the rights and obligations of the buildings erected on the Remaining Land owned by Pingshan Economic Cooperative shall be enjoyed and borne by Pingshan Economic Cooperative but such buildings shall be provided to DG Kiddieland Industrial for use at nil consideration until 30 November 2047 and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings;
- (d) a land expropriation compensation agreement dated 13 January 2017 between DG Kiddieland Industrial and Qinghutou Economic Union pursuant to which the parties agreed that: (i) DG Kiddieland Industrial shall pay land expropriation compensation of RMB2,540,340.00 in total to Qinghutou Economic Union in relation to the 14,113 sq. m. of land located at Qinghutou Community Dou Wu (Tu Ming)* (清湖頭社區豆屋(土名)) and (ii) prior to DG Kiddieland Industrial obtaining the relevant state-owned land use right certificates and real estate ownership certificate in respect of such land and the buildings erected thereon, it may continue to use such land without any interference from the Qinghutou Economic Union;

- (e) the Qinghutou Agreement dated 13 January 2017 between DG Kiddieland Industrial and Qinghutou Economic Union whereby the parties agreed that as DG Kiddieland Industrial will make supplemental application to obtain the land use rights certificate of the portion (with site area of 14,112.7 sq. m.) of Production Plant Land owned by Qinghutou Economic Union and the real estate ownership certificates in respect of the buildings erected thereon, (i) the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; and (ii) the rights and obligations of the buildings erected on the Remaining Land owned by Qinghutou Economic Union shall be enjoyed and borne by Qinghutou Economic Union but such buildings shall be leased to DG Kiddieland Industrial at nil rent, the term of aforesaid lease is 20 years and thereafter shall be automatically renewed to 30 November 2047;
- (f) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung as vendors and Kiddieland Trading as purchaser pursuant to which each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung agreed to sell their respective 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Toys to Kiddieland Trading for the consideration of HK\$3,375,253.25, HK\$3,375,253.25, HK\$3,375,253.25, HK\$1,687,626.625 and HK\$1,687,626.625 respectively, to be satisfied by the allotment and issue by Kiddieland Trading of 2,400, 2,400, 2,400, 1,249 and 1,249 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid;
- (g) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo as vendors and Kiddieland Trading as purchaser pursuant to which each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo agreed to sell their respective 3,334, 3,333 and 3,333 shares in W. Great Worth to Kiddieland Trading for the consideration of HK\$33.34, HK\$33.33 and HK\$33.33 respectively;
- (h) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo as vendors and Kiddieland Trading as purchaser pursuant to which each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo agreed to sell their respective 20, 20 and 20 shares in Kiddieland US to Kiddieland Trading for the consideration of US\$46,306, US\$46,306 and US\$46,306 respectively, to be satisfied by the allotment and issue by Kiddieland Trading of 100, 100 and 100 shares in Kiddieland Trading to Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo respectively, all credited as fully paid;
- (i) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo as vendor and Kiddieland Trading as purchaser pursuant to which Mr. Kenneth Lo agreed to sell his 100 shares in Kiddieland UK to Kiddieland Trading for the consideration of HK\$100;
- (j) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung as vendors and Kiddieland Manufacturing as purchaser pursuant to which each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung agreed to sell their respective 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Industrial to Kiddieland Manufacturing for the consideration of HK\$39,779,182.75, HK\$39,779,182.75, HK\$39,779,182.75,

HK\$19,889,591.375 and HK\$19,889,591.375 respectively, to be satisfied by the allotment and issue by Kiddieland Manufacturing of 2,500, 2,500, 2,500, 1,249 and 1,249 shares in Kiddieland Manufacturing to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid;

- (k) a sale and purchase agreement dated 23 January 2017 between Mr. Victor Lo and Ms. Esther Leung as vendors and Kiddieland Manufacturing as purchaser pursuant to which each of Mr. Victor Lo and Ms. Esther Leung agreed to sell their respective 5,000 and 5,000 shares in Innotech to Kiddieland Manufacturing for the consideration of HK\$50 and HK\$50 respectively;
- (l) a sale and purchase agreement dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung as vendors and Kiddieland Group as purchaser pursuant to which each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung agreed to sell their respective 2,500, 2,500, 2,500, 1,250 and 1,250 shares in each of Kiddieland Trading and Kiddieland Manufacturing to Kiddieland Group in consideration of the allotment and issue by Kiddieland Group of 2,500, 2,500, 2,500, 1,249 and 1,250 shares in Kiddieland Group to Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung respectively, all credited as fully paid;
- (m) a deed for sale and purchase dated 23 January 2017 between Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung as vendors and our Company as purchaser pursuant to which our Company agreed to acquire from each of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung their respective 2,500, 2,500, 2,500, 1,250 and 1,250 shares in Kiddieland Group and in consideration thereof, our Company agreed at the directions of Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo and Ms. Esther Leung to allot and issue in aggregate 9,999 new Shares credited as fully paid to KLH Capital;
- (n) an agreement dated 14 July 2017 between DG Kiddieland Industrial and Pingshan Economic Cooperative whereby the parties agreed that as DG Kiddieland Industrial intends to make supplemental application to obtain the land use rights of the portion of Production Plant Land owned by Pingshan Economic Cooperative with site area of 23,503.3 sq. m. and the real estate ownership certificate in respect of the buildings erected thereon, the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; but if the said supplemental application for land use rights certificate is rejected by the relevant governmental department and such rejection decision has become legally effective and irrevocable, then such buildings shall revert back to Pingshan Economic Cooperative and the rights and obligations relating to such buildings shall be enjoyed and borne by Pingshan Economic Cooperative. In such event, the said buildings shall be provided to DG Kiddieland Industrial for use at nil consideration until 30 November 2047, and DG Kiddieland Industrial shall bear the water and electricity charges in respect of such buildings;
- (o) an agreement dated 20 July 2017 between DG Kiddieland Industrial and Qinghutou Economic Union whereby the parties agreed that as DG Kiddieland Industrial intends to make supplemental application to obtain the land use rights of the portion of Production Plant Land owned by Qinghutou Economic Union with site area of 14,112.7 sq. m. and the real estate

ownership certificate in respect of the buildings erected thereon, the buildings erected on such portion of Production Plant Land shall belong to DG Kiddieland Industrial; but if the said supplemental application for land use rights certificate is rejected by the relevant governmental department and such rejection decision has become legally effective and irrevocable, then such buildings shall revert back to Qinghutou Economic Union and the rights and obligation of such buildings shall be enjoyed and borne by Qinghutou Economic Union. In such event, the said buildings shall be provided to DG Kiddieland Industrial for use at nil consideration for 20 years and upon expiry of such term, automatically extended for a further term until 30 November 2047, and DG Kiddieland Industrial shall bear the water and electricity charges in respect of the use of such buildings;

- (p) a deed of non-competition dated 31 August 2017 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with our Controlling Shareholders — Non-competition undertaking” in this prospectus;
- (q) a deed of indemnity dated 31 August 2017 entered into between our Controlling Shareholders and our Company for itself and as trustee for its subsidiaries pursuant to which the Controlling Shareholders have given certain indemnities in favour of our Group containing the indemnities referred to in the paragraph headed “Other information — Estate duty, tax and other indemnities” in this Appendix; and
- (r) the Hong Kong Underwriting Agreement dated 8 September 2017 entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriter, particulars of which are set out in the section headed “Underwriting” in this prospectus.

2. Intellectual property rights of our Group

(a) As at the Latest Practicable Date, our Group had registered the following trademarks:

Registrant	Trademark	Class	Place of registration	Registration No.	Effective period of registration
Kiddieland Toys	A KIDDIELAND	28	Hong Kong	303767536	6 May 2016 to 5 May 2026
	B KIDDIELAND				
	C KIDDIELAND				
DG Kiddieland Toys	KIDDIELAND	28	PRC	13501117	21 March 2016 to 20 March 2026
DG Kiddieland Toys	KIDDIELAND	28	PRC	6841865	7 July 2012 to 6 July 2022
DG Kiddieland Toys	童梦园	28	PRC	6854878	21 January 2011 to 20 January 2021
DG Kiddieland Toys	KIDDIELAND	35	PRC	13501072	14 July 2015 to 13 July 2025
DG Kiddieland Industrial	童园	28	PRC	17015720	7 September 2016 to 6 September 2026
DG Kiddieland Industrial	童园	35	PRC	17015824	7 September 2016 to 6 September 2026
DG Kiddieland Industrial	童园	37	PRC	17015994	28 July 2016 to 27 July 2026
DG Kiddieland Industrial	童园	42	PRC	17015996	28 July 2016 to 27 July 2026
DG Kiddieland Industrial	童园玩具	35	PRC	17016186	28 July 2016 to 27 July 2026
DG Kiddieland Industrial	童梦园	35	PRC	17016237	7 September 2016 to 6 September 2026
DG Kiddieland Industrial	童梦园	37	PRC	17016286	21 September 2016 to 20 September 2026
DG Kiddieland Industrial	童梦园玩具	35	PRC	17016415	21 September 2016 to 20 September 2026
DG Kiddieland Industrial	Kiddieland	42	PRC	17016580	28 July 2016 to 27 July 2026
DG Kiddieland Industrial	KIDDIELAND	35	PRC	17016804	28 August 2016 to 27 August 2026
DG Kiddieland Industrial	Kiddieland Toys	35	PRC	17016880	28 September 2016 to 27 September 2026
Kiddieland Industrial	KIDDIELAND	28	France	99768648	13 January 1999 to 12 January 2019

(b) As at the Latest Practicable Date, our Group had registered the following domain name:

Registrant	Domain Name	Expiry Date
Kiddieland Industrial	kiddieland.com.hk	null
DG Kiddieland Industrial	kiddieland.com.cn	19 January 2019

III. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Disclosure of Interests

So far as is known to any Director or the chief executive of our Company as at the Latest Practicable Date, immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of any of the Over-allotment Option and any Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme, the interests and short positions of each of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any of our Company's associated corporations (within the meaning of Part XV of the SFO) which (a) will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once our Shares are listed on the Stock Exchange or (b) will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or (c) will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, are as follows:

Long position in shares of associated corporation

Name of Director	Name of associated corporation	Type of interests	Number of shares	Shareholding percentage
Mr. Kenneth Lo	KLH Capital	Personal	2,500	25%
Ms. Suzanne Lo	KLH Capital	Personal	2,500	25%
Ms. Sylvia Lo	KLH Capital	Personal	2,500	25%
Mr. Victor Lo	KLH Capital	Personal and family (<i>Note</i>)	2,500	25%
Ms. Esther Leung	KLH Capital	Personal and family (<i>Note</i>)	2,500	25%

Note: Each of Mr. Victor Lo and Ms. Esther Leung holds 1,250 shares in KLH Capital representing 12.5% of the issued share capital of KLH Capital. As each of them is the spouse of the other of them, each of them is deemed under the SFO to be interested in such 1,250 shares in KLH Capital held by the other of them.

So far as is known to any Director or the chief executive of our Company as at the Latest Practicable Date, save as disclosed above, none of our Directors or the chief executive of our Company will, immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme, have an interest and/or short position in the shares, underlying shares or debentures of our Company or any of our Company's associated corporations (within the meaning of Part XV of the SFO) which (a) will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once our Shares are listed on the Stock Exchange or (b) will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or (c) will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange.

2. Interests in suppliers and customers of the Group

As at the Latest Practicable Date, so far as our Directors are aware, no Director or their respective close associates or any Shareholder who is interested in 5% or more of the issued share capital of our Company had any interest in the five largest suppliers or customers of our Group.

3. Particulars of Directors' service agreements and letters of appointment

Each of Mr. Kenneth Lo and Ms. Sylvia Lo had entered into a service contract or contract of employment with a member of our Group, the principal terms of which are set out below:

Name	Member of our Group	Position	Term	Termination
Mr. Kenneth Lo	Kiddieland Industrial	Managing director	From 20 June 1998 until termination by either party	1 month's written notice
Ms. Sylvia Lo	Kiddieland Toys	Executive director	From 1 October 2001 until termination by either party	1 month's written notice

The current basic salary for each of Mr. Kenneth Lo and Ms. Sylvia Lo is HK\$77,000 per month and HK\$70,000 per month respectively. Each of Mr. Kenneth Lo and Ms. Sylvia Lo is also entitled to an end-of-year bonus equivalent to one month's salary.

For the purpose of the Listing, each of Mr. Kenneth Lo and Ms. Sylvia Lo has entered into a termination agreement with Kiddieland Industrial or Kiddieland Toys to terminate the above service contracts or contracts of employment with effect from the Listing Date.

Each of our executive Directors has entered into a service agreement with our Company on 31 August 2017, the particulars of which, except as indicated, are in all material respects the same and are summarized below:

- (a) Each service agreement is for a term of three years commencing from the Listing Date unless terminated in accordance with the terms of the service agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than 3 months' prior written notice. Their appointments are subject to the provisions of retirement by rotation of Directors under the Articles. Our Company may also terminate the service agreement without notice if the relevant executive Director is guilty of, among others, dishonesty or grave misconduct or willful default or neglect in the discharge of his/her duties, becomes bankrupt or of unsound mind, be guilty of conduct tending to bring himself/herself or any companies in our Group into disrepute or be prohibited by law from fulfilling his/her duties under the service agreement.

- (b) For the first year from the Listing Date, the monthly salary for each of our executive Directors are as follows, and shall accrue on a day to day basis, such salary to be reviewed annually by the remuneration committee of our Board and to be decided by our Board:

Executive Director	Monthly salary
Mr. Kenneth Lo	HK\$150,000
Ms. Suzanne Lo	HK\$100,000
Ms. Sylvia Lo	HK\$100,000
Mr. Victor Lo	HK\$60,000
Ms. Esther Leung	HK\$60,000

- (c) Each of our executive Directors is entitled to a discretionary performance bonus as may be determined by our Board at its absolute discretion having regard to the performance of the Group and the performance of the Director, subject to the review and approval of the remuneration committee of our Board.
- (d) Each of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo is also entitled to an end-of-year bonus in an amount equal to the Director's monthly salary prevailing at such time payable on the last working day of January of the following year provided that if the appointment is terminated prior to 31 December of any year, the Director shall not be entitled to the end-of-year bonus in respect of the relevant year when the appointment is terminated.
- (e) Each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board or any committee of our Board regarding the amount of salary or discretionary bonus payable to him/her.

Each of our independent non-executive Directors has signed a letter of appointment on 31 August 2017 with our Company for a period commencing from the date of the letter of appointment and ending on the date falling three years from the Listing Date, unless otherwise terminated in accordance with the terms of the letter of appointment. Their appointments are subject to the provisions of retirement by rotation of Directors under the Articles. The initial annual director's fees payable to our independent non-executive Directors under the letters of appointment are as follows:

Independent non-executive Director	Annual director's fee
Tse Yuen Shan	HK\$50,000
Man Ka Ho Donald	HK\$50,000
Szeto Chi Yan Stanley	HK\$50,000

4. Remuneration of Directors

Approximately HK\$2.8 million was paid to our Directors by our Group as remuneration (including allowances and benefits in kind) for FY2017.

Approximately HK\$5.0 million as remuneration is estimated to be paid to our Directors by our Group in respect of the year ending 30 April 2018 pursuant to the present arrangement.

5. Guarantees and mortgages by Directors and/or companies controlled by them

Our executive Directors had given personal guarantees, and certain companies controlled by certain of our executive Directors had given corporate guarantees or mortgaged certain properties owned by them, in favour of various banks to secure the debts and liabilities due by certain members of our Group. Such guarantees and mortgages are expected to be released upon Listing and be replaced by corporate guarantees from our Company.

6. Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:

- (a) none of our Directors nor any of the persons whose names are listed in the section headed “Other Information — Consent of experts” in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and
- (c) none of our Directors has entered into or has proposed to enter into any service agreements with any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

IV. SHARE OPTION SCHEME

Summary of the terms of the Share Option Scheme

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as our Board may approve from time to time.

2. *Who may join*

Our Board may, at its discretion, invite:

- (a) any director, chief executive or employee (whether full-time or part-time) of each member of our Group;
- (b) any discretionary objects of a discretionary trust established by any director, chief executive or employee (whether full time or part time) of each member of our Group; and
- (c) a company beneficially owned by any director, chief executive or employee (whether full time or part time) of each member of our Group,

provided that our Board may at its absolute discretion determine whether or not one falls within the above categories (together, the “**Participants**” and each a “**Participant**”), to take up option(s) granted to the Participant to subscribe for Shares pursuant to the terms of the Share Option Scheme (the “**Options**”) to subscribe for Shares at a price determined in accordance with paragraph 6 below.

In determining the basis of eligibility of each Participant, our Board would take into account such factors as our Board may at its discretion consider appropriate.

3. *Conditions*

The Share Option Scheme shall take effect subject to the passing of an ordinary resolution approving the adoption of the Share Option Scheme by our Shareholders and authorising our Directors to grant Options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of any Options granted under the Share Option Scheme, and is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, (i) the Shares in issue and to be issued as mentioned in this prospectus and (ii) any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme, whether the granting of the listing and permission is subject to conditions or not;
- (b) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator on behalf of the other Underwriters) and not being terminated in accordance with the terms of the respective Underwriting Agreements or otherwise; and
- (c) the commencement of dealings in Shares on the Stock Exchange.

4. *Duration and Administration*

- (a) Subject to the fulfilment of the conditions in paragraph 3 above and the termination provisions in paragraph 16 below, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolutions of our Shareholder(s) (the “**Adoption Date**”), after which period no further Options will be granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provision of the Share Option Scheme, and Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.
- (b) The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final, conclusive and binding on all parties.
- (c) Subject to compliance with the requirements of the Listing Rules and the provisions of the Share Option Scheme, our Board shall have the right (i) to interpret and construe the provisions of the Share Option Scheme; (ii) to determine the persons who will be awarded Options under the Share Option Scheme and the number of Shares to be issued under the Option; (iii) to determine the price per Share at which a Participant who accepts an Offer in accordance with the terms of the Share Option Scheme (the “**Grantee**”) (or (where the context so permits) the legal personal representative(s) entitled to any such Option in consequence of the death of the original Grantee) may subscribe for Shares on the exercise of an Option (the “**Subscription Price**”); (iv) to make such appropriate and equitable adjustments to the terms of Options granted under the Share Option Scheme as it deems necessary; and (v) to make such other decisions, determinations or regulations as it shall deem appropriate in the administration of the Share Option Scheme.
- (d) A Grantee shall ensure that the acceptance of an Offer, the holding and exercise of his or her Option in accordance with the Share Option Scheme, the allotment and issue of Shares to him or her upon the exercise of his or her Option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he or she is subject. Our Board may, as a condition precedent of making an Offer and allotting and issuing Shares upon an exercise of an Option, require a Participant or Grantee (as the case maybe) to produce such evidence as it may reasonably require for such purpose.

5. *Grant of Option*

- (a) On and subject to the requirements of the Listing Rules and the terms of the Share Option Scheme, our Board shall be entitled at any time, and from time to time during the period of 10 years after the Adoption Date (provided that no Options shall be granted after the Share Option Scheme has been terminated (if applicable)) to make an offer of the grant of an Option (the “**Offer**”) to any Participant, taking into account

such factors as the Board may at its discretion consider appropriate, and as our Board may in its absolute discretion select, and subject to any such conditions as our Board may at its absolute discretion think fit, to subscribe for such number (being a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof) of Shares as our Board may (subject to paragraphs 9 and 10 below) determine at the Subscription Price.

- (b) No Offer shall be made (i) after inside information (as defined in the SFO) has come to the knowledge of our Board, until such inside information has been announced pursuant to the requirements of the Listing Rules; (ii) within the period commencing one month immediately before the earlier of (1) the date of the meeting of our Board (as such date is first notified by our Company to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of such results announcement; or (iii) during the period of delay in publishing an announcement mentioned in (ii) above.
- (c) An Offer shall be made to a Participant by letter (the date of which shall be deemed to be the date on which the grant of an Option (subject to acceptance by the Grantee) is made) in such form as our Board may from time to time determine (the "**Offer Letter**") specifying the number of Shares under the Option, the Subscription Price, the vesting schedule (if any), the conditions to vesting (if any), and the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme (the "**Option Period**") and requiring the Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. An Offer must be made on a Business Day and shall remain open for acceptance by the Participant to whom an Offer is made for a period from the date of the Offer ("**Offer Date**") to such date as our Board may determine and specify in the Offer Letter (both days inclusive) (the "**Acceptance Period**"), provided that no such Offer shall be open for acceptance after the 10th anniversary from the Adoption Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof, whichever is earlier.
- (d) An Offer shall be deemed to have been accepted by the Grantee and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the Offer Letter comprising acceptance of the Offer duly signed by the Grantee together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the granting thereof is received by our Company within the Acceptance Period, and the Option to which the Offer relates shall be deemed to have been granted on the Offer Date. Such remittance shall in no circumstances be refundable or be considered as part of the Subscription Price.

- (e) Any Offer may be accepted by a Grantee in respect of all or less than the number of Shares for which it is offered provided that it is accepted in respect of such number of Shares as representing a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and the number of Shares in respect of which the Offer is accepted is clearly stated in the duplicate of the Offer Letter received by our Company as mentioned in sub-paragraph 5(d). To the extent that the Offer is not accepted within the Acceptance Period and in the manner stipulated in sub-paragraph 5(d), it will be deemed to have been irrevocably declined by the Grantee and the Offer shall automatically lapse and becomes null and void.
- (f) Subject to the provisions of the Share Option Scheme and the Listing Rules, our Board may when making the Offer impose any terms, conditions, restrictions or limitations in relation to the Option as it may at its absolute discretion think fit.

6. *Subscription Price*

Subject to any adjustments made pursuant to paragraph 11, the Subscription Price in respect of each Share issued pursuant to the exercise of Options granted hereunder shall be a price solely determined by our Board and notified to a Participant and shall be at least the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day;
- (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Offer Date (provided that the new issue price shall be used as the closing price for any Business Day falling within the period before listing of the Shares where our Company has been listed for less than 5 Business Days as at the Offer Date); and
- (c) the nominal value of a Share.

7. *Exercise of Options*

- (a) An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests (whether legal or beneficial) in favour of any third party over or in relation to any Option or enter into any agreement to do so. Where the Grantee is a company, any change of its controlling shareholder or any substantial change in its management (which is to be determined by our Board at its absolute discretion) will be deemed to be a sale or transfer of interest aforesaid. Where the Grantee is a trust, any change of the beneficiary of the Grantee will be deemed to be a sale or transfer of interest aforesaid. Where the Grantee is a discretionary trust, any change of the discretionary objects of the Grantee will be deemed to be a sale or transfer of interest aforesaid. Any breach of the foregoing of a Grantee shall entitle our Company to cancel any outstanding Option or part thereof of such Grantee (to the extent that it has not already been exercised) without incurring any liability on the part of our Company. Any breach of the foregoing

of a Grantee shall entitle our Company to cancel any outstanding Option or part thereof of such Grantee (to the extent that it has not already been exercised) without incurring any liability on the part of our Company.

- (b) Unless otherwise determined by our Board and specified in the Offer Letter at the time of the Offer, there is neither any performance targets that need to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised. An Option may be exercised in whole or in part in the manner as set out in the Offer Letter, this sub-paragraph and sub-paragraph 7(c) by the Grantee (or his personal representative(s)) giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the total Subscription Price for the Shares in respect of which the notice is given. Subject to paragraph 12, within 60 days after receipt of the notice and the remittance, and where appropriate, receipt of certificate from the independent financial adviser, or the auditors for the time being of our Company (the “**Auditor**”) (as the case may be) pursuant to paragraph 11, our Company shall allot the relevant Shares to the Grantee (or his or her personal representative(s)) credited as fully paid and issue to the Grantee (or his or her personal representative(s)) a share certificate in respect of the Shares so allotted.
- (c) Subject as hereinafter provided and subject to the terms and conditions upon which such Option was granted, an Option may be exercised by the Grantee at any time during the Option Period provided that:
 - (i) in the event of the Grantee ceases to be a Participant for any reason other than on the Grantee’s death or the termination of the Grantee’s employment, office, directorship, appointment or engagement on one or more of the grounds specified in sub-paragraph 8(f) below, the Option granted to such Grantee shall lapse on the date of cessation (to the extent that it has not already been exercised) and will not be exercisable unless our Board otherwise determines to grant an extension at the discretion of our Board in which event the Grantee may exercise the Option in accordance with the provisions of paragraph 7(b) above within such period of extension and up to a maximum entitlement directed at the discretion of our Board on the date of grant of extension (to the extent that it has not already been exercised and subject to other terms and conditions decided at the discretion of our Board). For the avoidance of doubt, such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date on which the Grantee ceases to be a Participant, which date of cessation shall be the Grantee’s last actual working day with our Company or our relevant subsidiary (the “**relevant company**”) whether salary is paid in lieu of notice or not, or the last date of employment, office, directorship, appointment or engagement as director, chief executive or employee of, the relevant company, as the case may be, in the event of which, the date of cessation as determined by a resolution of the board of directors or governing body of the relevant company shall be conclusive;

- (ii) in the event of the Grantee dies before exercising the Option in full and none of the events which would be a ground for termination of the Grantee's employment, office, directorship, appointment or engagement under sub-paragraph 8(f) arises, the personal representative(s) of the Grantee shall be entitled within a period of 6 months or such longer period as our Board may determine from the date of death, to exercise the Option up to the entitlement of such Grantee as at the date of death (to the extent that it has become exercisable and has not already been exercised) or, if appropriate, make an election pursuant to sub-paragraph 7(c)(iii), (iv), (v) or (vi);
- (iii) if a general offer by way of take-over or otherwise (other than by way of scheme of arrangement pursuant to sub-paragraph 7(c)(iv)) is made to all holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditional prior to the expiry of the relevant Option Period, the Grantee (or his personal representative(s)) may by notice in writing to our Company within 21 days of the notice of the offeror exercise the Option (to the extent that it has become exercisable on the date of the notice of the offeror and has not already been exercised) to its full extent or to the extent specified in such notice;
- (iv) if a general offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary majority of holders of Shares at the requisite meetings, the Grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by our Company, after which it shall lapse), by notice in writing to our Company, exercise the Option (to the extent that it has become exercisable and has not already been exercised) to its full extent or to the extent specified in such notice;
- (v) other than a general offer or a scheme of arrangement contemplated in sub-paragraphs 7(c)(iii) and (iv), if a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the Grantee on the same date as it despatches the notice which is sent to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the end of 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his Options (to the extent that it has become exercisable and has not already been exercised) whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the Grantee (or his

personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of Options in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement; and

- (vi) in the event of a notice is given by our Company to our Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, our Company shall on the same date as it despatches such notice to convene the general meeting, give notice thereof to all Grantees and thereupon, the Grantees (or their respective personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to our Company (such notice to be received by our Company not later than 2 Business Days prior to the proposed general meeting of our Company) exercise the Option (to the extent that it has become exercisable and has not already been exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.
- (d) The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders the rights (including those arising on a liquidation of our Company) to vote and participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue, provided always that when the date of exercise of the Option falls on a date upon which the register of shareholders of our Company is closed, then the exercise of the Option shall become effective on the first Business Day on which the register of shareholders of our Company is re-opened.

8. *Lapse of Option*

An Option shall lapse automatically and not be exercisable (to the extent that it has not already been exercised) on the earliest of:

- (a) the expiry of the Option Period (subject to the provisions of paragraphs 4(a) and 14);
- (b) the date on which the Grantee ceases to be a Participant as referred to in sub-paragraph 7(c)(i) (in the case where our Board has not determined an extension of time in which the Option may be exercised) or the expiry of the extended period of time in which the Option may be exercised as determined by our Board as referred to in sub-paragraph 7(c)(i);

- (c) the expiry of the periods referred to in sub-paragraphs 7(c)(ii) or (iii), where applicable;
- (d) subject to the scheme of arrangement as referred to in sub-paragraph 7(c)(iv) becoming effective, the expiry of the period referred to in sub-paragraph 7(c)(iv);
- (e) subject to the compromise or arrangement referred to sub-paragraph 7(c)(v) becoming effective, the expiry of the period referred in sub-paragraph 7(c)(v);
- (f) the date on which the Grantee ceases to be a Participant by reason of the termination of his employment, office, directorship, appointment or engagement as director, chief executive or employee of the relevant company on one or more of the following grounds, namely, that he has been guilty of misconduct, or has been in breach of material term of the relevant employment contract or service contract, or has stopped payment to creditors generally or been unable to pay his debts within the meaning of any applicable legislation relating to bankruptcy or insolvency, or has become bankrupt or insolvent, or has been served with a petition for bankruptcy, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, or (if so determined by our Board or the board of the relevant company, as the case may be) on any other ground on which any employer or any engaging party would be entitled to terminate his employment, office, directorship, appointment or engagement at common law or pursuant to any applicable laws or under the Grantee's employment contract or service contract with our Company or the relevant company (as the case may be), in the event which a resolution of our Board or the board of directors or governing body of the relevant company (as the case may be) to the effect that the employment, office, directorship, appointment or engagement of a Grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph 8(f) shall be conclusive and binding on the Grantee;
- (g) the close of 2 Business Days prior to the general meeting of our Company held for the purpose of approving the voluntary winding-up of our Company or the date of the commencement of the winding-up of our Company;
- (h) the date on which our Board exercises our Company's right to cancel the Option at any time after the Grantee commits a breach of sub-paragraph 7(a); or
- (i) the date on which the Option is cancelled by our Board as provided in paragraph 15.

Our Company shall owe no liability to any Grantee for the lapse of any Option under this paragraph 8.

9. *Maximum number of Shares available for subscription*

- (a) Subject to sub-paragraph 9(b):
- (i) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Company and/or any of its subsidiaries shall not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares to be issued upon exercise of the Over-allotment Option (such 10% being 100,000,000 Shares), unless our Company obtains an approval from our Shareholders pursuant to sub-paragraph 9(a)(ii) or 9(a)(iii). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.
 - (ii) Our Company may seek approval of our Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph 9(a)(i) under the Share Option Scheme in accordance with the provisions of the Listing Rules provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of our Company and/or any of its subsidiaries under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of Shareholders' approval for refreshing such limit. Options previously granted under the Share Option Scheme and any other share option scheme(s) of our Company and/or any of its subsidiaries (including those outstanding, cancelled or lapsed in accordance with the relevant schemes or exercised options) will not be counted for the purpose of calculating such limit as refreshed. In such a case, our Company shall send a circular to our Shareholders containing the information and the disclaimer as required under the Listing Rules.
 - (iii) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the 10% limit in accordance with the provisions of the Listing Rules provided that the Options in excess of such limit are granted only to Participants specifically identified by our Company before such approval is sought. In such a case, our Company shall send a circular to our Shareholders containing such information and the disclaimer as required under the Listing Rules.
- (b) Notwithstanding any provision in sub-paragraph 9(a) and subject to paragraph 11, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of our Company and/or any of its subsidiaries must not in aggregate exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules). No options may be granted under the Share Option Scheme and any other share option schemes of our Company if this will result in such limit being exceeded.

- (c) If our Company conducts a share consolidation or subdivision after the 10% limit has been approved in general meeting, the maximum number of Shares that may be issued upon exercise of all options to be granted under all share option schemes of our Company under the 10% limit as a percentage of the total number of issued shares at the date immediately before and after such consolidation or subdivision shall be the same.

10. *Maximum entitlement of Shares of each Participant*

- (a) (i) Subject to sub-paragraphs 10(a)(ii), (iii) and (iv), the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.
- (ii) Notwithstanding sub-paragraph 10(a)(i), where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of our Company (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such Participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting. The number of Shares subject to the Options to be granted to such Participant and the terms (including the Subscription Price) of the Options to be granted to such Participant shall be fixed before Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the Subscription Price. In such a case, our Company shall send a circular to our Shareholders containing, amongst other terms, the identity of such Participant, the number and the terms of the Options to be granted (and options previously granted to such Participant) and such other information and the disclaimer as required under the Listing Rules.
- (iii) In addition to paragraph 9 and sub-paragraphs 10(a)(i) and 10(a)(ii), any grant of Options to a Participant who is a director, chief executive or substantial shareholder of our Company or their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed Grantee of such Option).

(iv) In addition to paragraph 9 and sub-paragraphs 10(a)(i) and 10(a)(ii), where our Board proposes to grant any Option to a Participant who is a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including proposed date of such grant:

(A) representing in aggregate more than 0.1% of the total number of Shares in issue on the proposed date of such grant; and

(B) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the proposed date of such grant, in excess of HK\$5,000,000,

such proposed grant of Options must be approved by our Shareholders in general meeting in accordance with the Listing Rules. In such a case, our Company shall send a circular to our Shareholders containing all those information as required under the Listing Rules. The Participant concerned, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour of the resolution at such general meeting. Any change in the terms of an option granted to a Participant who is a substantial shareholder or an independent non-executive Director, or any of their respective associates is also required to be approved by our Shareholders in the aforesaid manner.

(b) Subject to sub-paragraphs 9(a), 9(b) and 10(a), in the event of any alteration in the capital structure of our Company by way of capitalisation issue, rights issue, consolidation or subdivision of shares or reduction of the share capital of our Company or otherwise howsoever (other than as a result of an issue of Shares as consideration in a transaction), the maximum number of Shares referred to in sub-paragraphs 9(a), 9(b) and 10(a) will be adjusted in such manner as, other than any alterations made on a capitalisation issue, an independent financial adviser or the Auditors (acting as experts and not as arbitrators) shall confirm to our Directors in writing that the adjustments satisfy the requirements under the Listing Rules.

11. Alteration of capital structure

In the event of any alteration to the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, subdivision or consolidation of shares or reduction of the share capital of our Company or otherwise howsoever in accordance with the applicable legal requirements and requirements of the Stock Exchange (excluding any alteration in the capital structure of our Company as a result of an issue of Shares pursuant to the exercise of the Over-allotment Option or as consideration in respect of a transaction to which our Company is a party) at any time after the date on which dealings in the Shares first commence on the Stock Exchange, such corresponding alterations (if any) shall be made to:

- (a) the number or nominal amount of Shares subject to the Option already granted but unexercised; and/or
- (b) the Subscription Price;

as, other than any alterations made on a capitalisation issue, an independent financial adviser appointed by our Company or the Auditors shall at the request of our Board certify in writing to our Directors, either generally or as regards any particular Grantee, that any such alterations shall satisfy the requirements set out in the note to rule 17.03(13) of the Listing Rules and shall give a Grantee the same proportion of the issued share capital of our Company as that to which the Grantee was previously entitled, (as interpreted in accordance with the Supplementary Guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes and/or any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time), provided that no such alterations shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. The capacity of the independent financial adviser or the Auditors in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the Grantees. The costs of the independent financial adviser or the Auditors shall be borne by our Company. Notice of such alteration(s) shall be given to the Grantees by our Company.

12. Share capital

The exercise of any Option shall be subject to our Shareholders in a general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Board shall make available sufficient authorised but unissued share capital of our Company to meet subsisting requirements on the exercise of Options.

13. Disputes

Any dispute arising in connection with the Share Option Scheme (whether as to the number of Shares the subject of an Option, the amount of the Subscription Price or otherwise) shall be referred to the decision of the Auditors or an independent financial adviser appointed by our Company who shall act as experts and not as arbitrators and whose decision shall be final and binding.

14. Alteration of the Share Option Scheme

- (a) The provisions of the Share Option Scheme may be altered in any respect by resolution of our Board at its absolute discretion except that the provisions of the Share Option Scheme as to:
 - (i) the definitions of “Grantee”, “Option Period”, “Participant” and “Subscription Price”;
 - (ii) the provisions of paragraphs and sub-paragraphs 4(a), 5(a), 5(b), 5(c), 6, 7, 8, 9, 10, 11 and this paragraph 14; and
 - (iii) all such other matters set out in rule 17.03 of the Listing Rules,

shall not be altered to the advantage of the Participants except with the prior approval of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the affected Grantees as would be required of our Shareholders under the articles of association for the time being of our Company for a variation of the rights attached to the Shares.

- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) The amended terms of the Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (d) Any change to the authority of our Directors or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

15. Cancellation of the Options granted

Our Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. Where our Company cancels Options and makes an Offer of the grant of new Options to the same Option holder, the Offer of the grant of such new Options may only be made under the Share Option Scheme with available Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by our Shareholders as mentioned in paragraph 9.

16. Termination of the Share Option Scheme

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise

as may be required in accordance with the provisions of the Share Option Scheme, and Options which are granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme and their terms of issue. Upon such termination, details of the Options granted (including Options exercised or outstanding) under the Share Option Scheme and (if applicable) Options that become void or non-exercisable as a result of the termination are required under the Listing Rules to be disclosed in the circular to Shareholders seeking approval of the first new share option scheme established thereafter.

17. Miscellaneous

- (a) The Share Option Scheme shall not form part of any contract of employment or directorship, service contract or engagement contract between the relevant company of our Group and any Participant and the rights and obligations of any Participant under the terms of his employment, office, directorship, appointment or engagement shall not be affected by his participation in the Share Option Scheme or any right which he may have to participate in it and the Share Option Scheme shall afford such a Participant no additional rights to compensation or damages in consequence of the termination of such employment, directorship, appointment or engagement for any reason. By accepting an Option, a Grantee shall be deemed irrevocably to have accepted the grant subject to the provisions of the Share Option Scheme and to have waived any entitlement, by way of compensation for loss of office or otherwise howsoever, to any sum or other benefit to compensate him for loss of any rights under the Share Option Scheme.
- (b) The Share Option Scheme shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against our Company directly or indirectly or give rise to any cause of action at law or in equity against our Company.
- (c) Our Company shall bear the costs of establishing and administering the Share Option Scheme.
- (d) A Grantee shall be entitled to receive copies of all notices and other documents sent by our Company to our Shareholders.
- (e) Any notice or other communication between our Company and a Grantee may be given, in the case of notice and communication to our Company, by sending the same by prepaid post or by personal delivery to its principal place of business in Hong Kong or such other address as notified to the Grantees from time to time and, in the case of notice and communication to the Grantee (i) by sending the same by prepaid post or by personal delivery to his correspondence address in Hong Kong as notified to our Company from time to time or (ii) to the extent permitted by and in accordance with the Listing Rules and any other applicable laws, by electronic communication including by transmitting the same to any electronic number, address or website as notified to our Company from time to time or by placing the same on our Company's website and/or the website of the Stock Exchange.

- (f) Any notice or other communication served by post:
- (i) by our Company shall be deemed to have been served on the Grantee 24 hours after the same was put in the post; and
 - (ii) by the Grantee shall not be deemed to have been received by our Company until the same shall have been received by our Company.
- (g) Any notice or other communication served by electronic communication by our Company shall be deemed to have been served on the Grantee:
- (i) by our Company shall be deemed to have been served on the Grantee 24 hours after the same was put in the post; and
 - (ii) in any other case, on the day on which the same is transmitted to the Grantee if no notification has been received by our Company within 24 hours after the transmission that the electronic communication has not reached the Grantee,
- or at such later time as may be prescribed by the Listing Rules or any other applicable laws. Any failure in transmission of the electronic communication which is beyond our Company's control shall not invalidate the effectiveness of the notice or communication being served.
- (h) All allotments and issues of Shares shall be subject to any necessary consents under any relevant enactment or regulation in force from time to time in Hong Kong or elsewhere, and a Grantee shall be responsible for obtaining any governmental or other official consent or approval that may be required by any country or jurisdiction in order to permit the grant or exercise of the Option. Our Company shall not be responsible for any failure by a Grantee to obtain any such consent or approval or for any tax or other liability to which a Grantee may become subject as a result of his participation in the Share Option Scheme.
- (i) The Grantee shall pay all taxes and discharge all other liabilities to which he may become subject as a result of his participation in the Share Option Scheme or the exercise of any Option.
- (j) The Share Option Scheme and all Options granted shall be governed by and construed in accordance with the Listing Rules and the laws of Hong Kong in force from time to time.

Application has been made to the Listing Committee for listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options.

As at the date of this prospectus, no Option has been granted or agreed to be granted by our Company under the Share Option Scheme.

V. OTHER INFORMATION**1. Estate duty, tax and other indemnities***(a) Indemnity on estate duty and taxation*

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its subsidiaries) (being a contract referred to in the paragraph headed “Summary of material contracts” in this Appendix). Pursuant to the Deed of Indemnity, each of the Controlling Shareholders jointly and severally covenants with our Company and its subsidiaries in connection with, among others, (1) certain estate duty which might be payable or recovered against any members of our Group by virtue or under certain provisions of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong; and (2) any taxation which might be payable by any member of our Group in respect of any income, profit or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional (the “**Effective Date**”):

Our Controlling Shareholders will however, not be liable under the Deed of Indemnity for taxation:

- (i) to the extent (if any) to which provision, reserve or allowance has been made for such taxation liabilities and claims in the audited consolidated financial statements of our Company for the Track Record Period (the “**Accounts**”);
- (ii) to the extent that such taxation liabilities and claims falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after 1 May 2017 and ending on the Effective Date, where such taxation liabilities and claims would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement or acquiescence of the Controlling Shareholders other than such act, omission or transaction:
 - (A) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 30 April 2017, or
 - (B) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 April 2017, or an obligation imposed by any law, regulation or requirement having the force of law, or pursuant to any statement of intention made in this prospectus; or
- (iii) to the extent of any provision, reserve or allowance made for such taxation liabilities and claims in the Accounts which is finally established to be an over-provision or an excessive reserve or allowance, in which case the Controlling Shareholders’ liability (if any) in respect of such taxation liabilities and claims shall be reduced by an amount not exceeding such provision, reserve or allowance, provided that the amount of any such provision, reserve or allowance applied pursuant to this paragraph to reduce the

Controlling Shareholders' liability in respect of such taxation liabilities and claims shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess provision, reserve or allowance shall only be applied to reduce the liability of the Controlling Shareholders under the Deed of Indemnity and none of the members of our Group shall in any circumstances be liable to pay the Controlling Shareholders any such excess; or

- (iv) to the extent that such taxation liability arises or is increased as a result of the imposition of such taxation liabilities and claims as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in the Cayman Islands, Hong Kong, BVI or any other part of the world) coming into force after the Effective Date or to the extent that such taxation liabilities and claims arises or is increased by an increase in rates of such taxation liabilities and claims after the Effective Date with retrospective effect.

(b) Other indemnities

Pursuant to the Deed of Indemnity, our Controlling Shareholders have also given indemnities in connection with other matters as more particularly described below:

(i) Property indemnity

Our Controlling Shareholders have given indemnities on a joint and several basis in favour of the members of our Group against all actions, proceedings, claims, demands, damages, losses, costs, fees, expenses, fines, penalties, charges and liabilities of whatever nature which any member of our Group may make, suffer or incur in respect of or arising directly or indirectly from or on the basis of or in connection with:

- (1) in relation to any of the properties (including land and buildings) occupied or leased by any member of our Group in the PRC ("**Relevant Properties**") occupied or rented by any member of our Group in the PRC prior to the Effective Date, any lack of capacity or authority on the part of any of the owner(s) or lessor(s) or landlord(s) in allowing any member of our Group to use and/or occupy the Relevant Properties or any defect or want of authority in the execution by or any lack of capacity of any of the owner(s), lessor(s) or landlord(s) under any of the relevant lease agreements; and
- (2) the failure by the owner(s), lessor(s) or landlord(s) of any of the Relevant Properties in making proper registration of any lease agreement or agreement allowing any member of our Group to use and/or occupy the Relevant Properties entered into prior to the Effective Date between such owner(s), lessor(s) or landlord(s) and any member of our Group with the relevant PRC governmental authorities.

(ii) *Non compliance indemnity*

Our Controlling Shareholders have also given indemnities on a joint and several basis in favour of the members of our Group against any and all actions, proceedings, claims, demands, damages, losses, costs, fees, expenses, charges, liabilities and of whatever nature which any of the members of our Group may make, suffer or incur in respect of or arising directly or indirectly from or on the basis of or in connection with any violation or non-compliance prior to the Effective Date by any of member of our Group with any applicable laws, rules or regulations in Hong Kong, the PRC or any jurisdiction where any member of our Group is incorporated or where our Group conducts its business.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group.

2. Litigation

During the Track Record Period and up to the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance, and as at the Latest Practicable Date, no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group.

3. Registration Procedures

The principal register of members of our Company will be maintained in the Cayman Islands by our Company's principal share registrar, Estera Trust (Cayman) Limited and a Hong Kong register of members of our Company will be maintained in Hong Kong by our Company's Hong Kong branch share registrar, Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be registered on our principal register of members in the Cayman Islands.

4. Independence of the Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and any Shares which may be issued upon the exercise of options under the Share Option Scheme and the Over-allotment Option.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The total sponsor's fee paid or payable to the Sole Sponsor in relation to the Listing is HK\$2,500,000.

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$800 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given, nor are any such cash, securities or other benefit intend to be paid, allotted or given, to the promoter of our Company in connection with the Global Offering or the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
WAG Worldsec Corporate Finance Limited	Licensed under the SFO to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified public accountants
Appleby	Legal adviser as to Cayman Islands laws
Dentons	Legal adviser as to PRC laws
Jingtian & Gongcheng	Legal adviser as to PRC laws
Nixon Peabody LLP	Legal adviser as to United States laws
Mills & Reeve LLP	Legal adviser as to England and Wales laws
Graf von Westphalen	Legal adviser as to European laws
Herbert Smith Freehills New York LLP	Qualified to advise on U.S. sanctions laws and the international sanctions laws of the U.N.
Herbert Smith Freehills LLP	Qualified to advise on E.U. sanctions laws
Herbert Smith Freehills, an Australian partnership	Qualified to advise on Australian sanctions laws
China Insights Consultancy Limited	Independent industry consultants
LCH (Asia-Pacific) Surveyors Limited	Property valuer
RSM Tax Advisory (Hong Kong) Limited	Tax consultant

8. Consents of experts

Each of the experts set out in the table above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which they are, respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Agency fees or commission received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a sponsor fee, as referred to in the section headed “Underwriting — Commissions and expenses” in this prospectus.

11. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese version of this prospectus, the English language version shall prevail.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sales of any capital of our Company or any of our subsidiaries;
 - (iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.
- (b) Since 30 April 2017 (being the date to which the latest audited consolidated financial results of our Group as set out in Appendix I to this prospectus were made up), there has been no material adverse change in the financial or trading position or prospects of our Group.

- (c) None of the experts set out in “7. Qualifications of experts” above:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group;
or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group.
- (d) Our Company has no outstanding convertible debt securities or debentures.
- (e) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) There are no arrangements in existence under which future dividends are to be or agreed to be waived.
- (h) There has not been any interruption in the business of our Group which may or have had a significant effect on the financial position of our Group within 12 months preceding the date of this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (i) copies of the **WHITE, YELLOW** and **GREEN** application forms;
- (ii) the written consents referred to in the paragraph headed “Consents of experts” in the section headed “Other information” in Appendix V of this prospectus; and
- (iii) copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in the section headed “Further information about the business of our Group” in Appendix V of this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Woo Kwan Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (i) the Memorandum and the Articles;
- (ii) the accountant’s report of our Group prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I of this prospectus;
- (iii) the audited consolidated financial statements of our Group for the years ended 30 April 2015, 2016 and 2017;
- (iv) the report prepared by PricewaterhouseCoopers relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II of this prospectus;
- (v) the letter of advice issued by Appleby, our Company’s Cayman Islands legal counsel, summarising the constitution of the Company and certain aspects of Cayman Islands company law as referred to in Appendix IV of this prospectus;
- (vi) the CIC Report;
- (vii) the Companies Law;
- (viii) the rules of the Share Option Scheme;
- (ix) the PRC legal opinions dated 11 September 2017 in respect of our Group’s operations and property interests in the PRC issued by Dentons, our Company’s legal advisers as to PRC laws;
- (x) the legal opinion dated 11 September 2017 issued by Nixon Peabody LLP, our Company’s legal advisers as to US laws;

- (xi) the legal opinion dated 11 September 2017 issued by Mills & Reeve LLP, our Company's legal advisers as to England and Wales laws;
- (xii) the legal opinion dated 11 September 2017 issued by Graf von Westphalen, our Company's legal advisers as to European laws;
- (xiii) the advice dated 11 September 2017 in respect of certain economic sanctions administered by the U.S., E.U., Australia and the U.N. prepared by Herbert Smith Freehills;
- (xiv) the tax opinion prepared by RSM Tax Advisory (Hong Kong) Limited, in respect of the transfer pricing arrangement of our Group;
- (xv) the letter, summary of values and valuation certificate relating to our property interest prepared by LCH (Asia-Pacific) Surveyors Limited, the text of which is set out in Appendix III of this prospectus;
- (xvi) the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in Appendix V of this prospectus;
- (xvii) the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business of our Group" in Appendix V of this prospectus; and
- (xviii) the service agreements and letters of appointment referred to in the paragraph headed "Particulars of Directors' service agreements and letters of appointment" in the section headed "Further information about our Directors" in Appendix V of this prospectus.

Kiddieland International Limited
童園國際有限公司