kidsland 凱知樂

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

(incorporated in Cayman Islands with limited liability)

Stock code : 2122

curiosity at play

Global Offering

Sole Sponsor

海通國際 HAITONG

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

海通國際 HAITONG

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

kidsland

凱知樂

KIDSLAND INTERNATIONAL HOLDINGS LIMITED

凱知樂國際控股有限公司

(incorporated in Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Shares offered under the Global Offering	**:**	**200,000,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**20,000,000 Shares (subject to adjustment)**
Number of International Offer Shares	**:**	**180,000,000 Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$2.2 per Offer Share plus brokerage 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 on final pricing)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**2122**

Sole Sponsor

海通國際 HAITONG

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

海通國際 HAITONG

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date or such later date as may be agreed by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, but in any event, not later than Thursday, 9 November 2017. The Offer Price will be not more than HK$2.2 and is currently expected to be not less than HK$1.5, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Thursday, 9 November 2017 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$2.2 for each Offer Share, together with a 1.0% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price is lower than HK$2.2 as finally determined.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus 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 in the number of Offer Shares and/or the indicative Offer Price range will be published on our website at **www.kidslandholdings.com** 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 Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting – Underwriting Arrangements and Expenses – Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

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 or sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

31 October 2017

	2017[1]
Latest time for completing electronic applications under the **HK eIPO White Form** service through the designated website **www.hkeipo.hk**[2]	11:30 a.m. on Friday, 3 November
Application lists open[3]	11:45 a.m. on Friday, 3 November
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, 3 November
Latest time for completing payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 3 November
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Friday, 3 November
Application lists close[3]	12:00 noon on Friday, 3 November
Expected Price Determination Date[5]	Friday, 3 November
Announcement of the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering 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**[6] and our Company at **www.kidslandholdings.com**[7] on or before	Thursday, 9 November
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**[6] and our Company at **www.kidslandholdings.com**[7] (See the paragraph headed "How to Apply for Hong Kong Offer Shares – 11. Publication of results" in this prospectus) from	Thursday, 9 November
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function from	Thursday, 9 November

Despatch/collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on(8)&(10)	Thursday, 9 November
Despatch of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before(9)&(10)	Thursday, 9 November
Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on	Friday, 10 November

Notes:

(1) All times refer to Hong Kong local time, except as 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 a payment reference number from the designated website at or before 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 in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3 November 2017, the application lists will not open or close on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or around Friday, 3 November 2017 and, in any event, not later than Thursday, 9 November 2017. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us by Thursday, 9 November 2017, the Global Offering will not proceed and will lapse.

(6) The announcement will be available for viewing on the "Main Board – Results of Allotment" page on the Stock Exchange's website at **www.hkexnews.hk**.

(7) Neither our Company's website nor any of the information contained on our Company's website forms part of this prospectus.

(8) Share certificates will only become valid at 8:00 a.m. on Friday, 10 November 2017 provided that the Global Offering has become unconditional in all respects 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. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

(9) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

(10) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or share certificates in person from our Company's 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 Thursday, 9 November 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. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not collect their share certificates as such share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus for details. Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Auto Refund payment instructions. Applicants who have applied 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 in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

The above expected timetable is a summary only. You should refer to the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the structure and conditions of the Global Offering, including the conditions of the Global Offering and the procedures for application for the Hong Kong Offer Shares.

IMPORTANT NOTICE TO INVESTORS

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 other jurisdictions and the offering and sale of the Offer Shares in other jurisdictions may not be made except as permitted under the applicable securities laws of such jurisdiction pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters, any of our or their respective directors, affiliates, advisors, agents or representatives or any person or party involved in the Global Offering. Information contained in our website, located at www.kidslandholdings.com, does not form part of this prospectus.

Page

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety 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 deciding to invest in the Offer Shares.

OVERVIEW

We are the largest toy retailer in terms of retail sales value in 2016 in the PRC with approximately 14% market share according to the Euromonitor Report. Our Group is principally engaged in the retail and wholesale of mainly toys and infant products in the PRC and is engaged in the retail of toys in Hong Kong.

Brands and Products

We have a stable and collaborative relationship with renowned international brand owners. As at 31 August 2017, our brand portfolio consisted of 27 international brands, including LEGO, Silverlit, Chicco, Siku, Schleich, Brio, K's Kids and Aprica, and these branded products were sourced from 24 brand owners. The following table sets forth our portfolio of some of the major brands:

Toys		***Infant products***	
Brand owner	**Brand**	**Brand owner**	**Brand**
The LEGO Group	LEGO	Artsana S.p.A	chicco
Dongguan Silverlit	Silverlit	Aprica (Shanghai) Trading Co., Ltd	Aprica
Schleich GmbH	Schleich	Helen of Troy Commercial Offshore de Macau Ltda	oxo tot
Sieper GmbH	siku	Sterntaler GmbH	Sterntaler
Paka Preschool Products Limited	奇智奇思 K's Kids		
BRIO AB	BRIO		

Toys that we distribute broadly include construction toys, wooden toys, electronic toys, action figures and die-cast vehicles. For FY2014, FY2015, FY2016 and the four months ended 30 April 2017, our revenue attributable to toys amounted to approximately HK$1,208.7 million, HK$1,432.1 million, HK$1,475.5 million and HK$513.7 million, respectively, representing approximately 91.2%, 91.7%, 90.1% and 90.6%, respectively, of our revenue for the corresponding periods.

Infant products that we distribute broadly include baby strollers, baby high chairs, infant car seats, nursery products and apparel and accessories for babies and infants. For FY2014, FY2015, FY2016 and the four months ended 30 April 2017, our revenue attributable to infant products amounted to approximately HK$115.9 million, HK$129.2 million, HK$162.9 million and HK$53.0 million, respectively, representing approximately 8.8%, 8.3%, 9.9% and 9.4%, respectively, of our revenue for the corresponding periods.

Gross profits

The following table sets forth our gross profit and gross profit margin by product category during the Track Record Period:

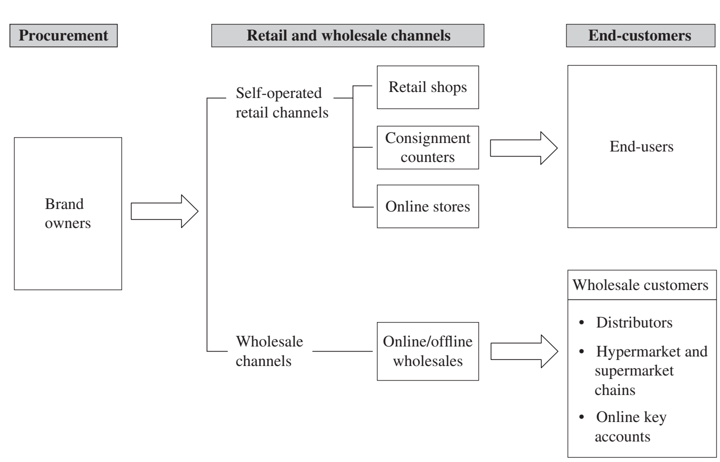
	For FY2014			For FY2015			For FY2016			For the four months ended 30 April 2016			2017		
	Toy products	Infant products	Total	Toy products	Infant products	Total	Toy products	Infant products	Total	Toy products	Infant products	Total	Toy products	Infant products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,208,706	115,943	1,324,649	1,432,082	129,209	1,561,291	1,475,463	162,911	1,638,374	455,190	43,789	498,979	513,678	53,041	566,719
Cost of goods sold	(627,545)	(52,425)	(679,970)	(721,135)	(55,997)	(777,132)	(750,794)	(69,790)	(820,584)	(242,222)	(21,104)	(263,326)	(266,643)	(21,358)	(288,001)
Gross profit	581,161	63,518	644,679	710,947	73,212	784,159	724,669	93,121	817,790	212,968	22,685	235,653	247,035	31,683	278,718
Gross profit margin (%)	48.1	54.8	48.7	49.6	56.7	50.2	49.1	57.2	49.9	46.8	51.8	47.2	48.1	59.7	49.2

During the Track Record Period, our overall gross profit margin remained relatively stable: the gross profit margin of our toy products remained relatively stable, while the gross profit margin of our infant products fluctuated. The gross profit margin of our infant products increased from approximately 54.8% for FY2014 to approximately 56.7% for FY2015 and further increased to 57.2% for FY2016. Such increase in the gross profit margin of our infant products from approximately 54.8% for FY2014 to approximately 56.7% against FY2015 was principally due to the increase in demand of (and hence, revenue from) certain brands of infant products in FY2015 which had a higher profit margin. The increase in the gross profit margin of our infant products from approximately 51.8% for the four months ended 30 April 2016 to approximately 59.7% for the four months ended 30 April 2017 was primarily due to the reversal of allowance for inventory of about HK$0.4 million during the four months ended 30 April 2017 as a result of our effort in clearing up our inventory during the four months ended 30 April 2017.

Business Model

Our Group is principally engaged in the retail and wholesale of mainly toys and infant products in the PRC and is engaged in the retail of toys in Hong Kong. We are not engaged in the wholesale of toys and infant products in Hong Kong. We are not engaged in any manufacturing activities. As at 30 April 2017, we sourced our products under 26 international toy and infant product brands from 23 brand owners. We make retail sales through our self-operated retail channels, comprising (i) retail shops, where our products are sold via shops under our own brands, namely Kidsland store and Babyland store, as well as single branded stores under a specific brand; (ii) consignment counters in department stores and a renowned global toy store chain; and (iii) online stores on third party-operated online platforms, from which end-users, who are individuals, can pick and choose their favourite items. Our Group is also engaged in the wholesale of toys and infant products through our wholesale channels, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC. Our retail sale of toys in Hong Kong only started in August 2016, and our Hong Kong retail business accounted for about 1.9% of our revenue for that year. As at the Latest Practicable Date, we had two retail shops (namely LEGO Certified Store) in Hong Kong.

The following diagram depicts our business model:



Our brand owners

Our relationship with our brand owners is regulated by distributorship agreements between us and our brand owners. For details of the major terms of a typical distributorship agreement with our brand owners, please refer to the section headed "Business – Our Brand Owners – Terms of distributorship agreements with our brand owners" in this prospectus.

Our relationship with the LEGO Group

According to the Euromonitor Report, the LEGO Group is a world renowned manufacturer of construction toys for people of different ages, and our sales of LEGO products (in terms of final retail sales value) accounted for over 80%, over 70% and over 50% of the total retail sales (in terms of final retail sales value) of LEGO products in the PRC in 2014, 2015 and 2016, respectively. Although we recorded decreasing trend in our market share of LEGO sales in the PRC, our sales of LEGO products continued to grow during the Track Record Period.

Our relationship with the LEGO Group dates back to 2001 when our Group started to sell and distribute their products in the PRC. From 2001 to 2016, we entered into various distributorship agreements with members of the LEGO Group, pursuant to which we had exclusive right to sell and distribute LEGO products (excluding LEGO educational products, products manufactured under licence from the LEGO Group, products manufactured within electronic publishing and products produced for exclusive sale in LEGO shops or LEGO family parks, LEGO education/afterschool centres, LEGO clubs or the internet) in various distribution channels in the PRC, except for (i) the online channel; and (ii) the right to sell LEGO products to a few of our wholesale customers which have been key accounts of the LEGO Group. It is our Directors' understanding that the LEGO Group changed its sales and marketing strategy with respect to the PRC market at the end of 2015. At such time, we were in negotiation with the LEGO Group in respect of renewal of the PRC distributorship agreement which expired on 31 December 2015. As a result, when the 2016 LEGO Agreement was entered into, we gradually ceased to enjoy the exclusivity in distributing LEGO products in certain channels in China from 2016 onwards, and only maintained the exclusive right in distribution via consignment counters in department stores. For details of the 2016 LEGO Agreement, please refer to the section headed "Business – Our Brand Owners – Our relationship with the LEGO Group" in this prospectus.

We believe that up to the Latest Practicable Date, we had maintained a solid business relationship with the LEGO Group. Notwithstanding the changes in certain terms to our distribution rights which took effect in 2016 under the 2016 LEGO Agreement, our revenue attributable to LEGO products for FY2016 increased by approximately 2.5% as compared with that for FY2015; while for the four months ended 30 April 2017, our revenue attributable to LEGO products increased by approximately 8.0% as compared with that for the four months ended 30 April 2016. During the Track Record Period, there was a gradual decreasing trend in our reliance on the sales of LEGO products which represented 66.5%, 64.2%, 62.7% and 61.2% of our revenue for such period, respectively. Upon the termination of our exclusivity in certain distribution channels from 2017 onwards, our revenue and net profit recorded positive growth for the four months ended 30 April 2017 as compared with that for the four months ended 30 April 2016. In addition, we started to operate our first LEGO Certified Store in the PRC in May 2017. As at the Latest Practicable Date, we operated three LEGO Certified Stores in the PRC. Having taken into account our unaudited consolidated management accounts for the four months ended 31 August 2017, our revenue attributable to LEGO products for the first eight months of 2017 continued to record positive growth as compared to the same period in FY2016. Our Directors are of the view that up to the date of this prospectus, there had been no material adverse change on our Group in light of the abovementioned changes in our distribution rights under the 2016 LEGO Agreement.

Reliance on the LEGO Group

During the Track Record Period, the LEGO Group was our largest brand owner. For FY2014, FY2015, FY2016 and the four months ended 30 April 2017, purchases from the LEGO Group represented approximately 63.2%, 67.5%, 66.2% and 64.6%, respectively, of our total purchases. For details of our business relationship with the LEGO Group, please refer to the section headed "Business – Our Brand Owners – Our relationship with the LEGO Group" in this prospectus. We believe that our business is not unduly reliant on the LEGO Group for the following reasons:

- Mutually beneficial and complementary relationship – Our Group and the LEGO Group have a long history of cooperation dating back to 2001. Given our established business relationship, proven track record, extensive retail and distribution network and our contribution to the sales of LEGO products in the PRC, we believe that we may continue the mutually beneficial and complementary relationship with the LEGO Group, as replacement of us with another distributor of similar size and market position within a short period of time may not be commercially efficient or viable. As at 30 April 2017, we sold LEGO products and/or other toys or infant products via (i) 509 retail points of our Group in 65 cities across 25 provinces, autonomous regions and municipalities in the PRC; (ii) two online stores of our Group; (iii) about 2,000 retail shops operated by our wholesale customers in 103 cities across 30 provinces, autonomous regions and municipalities in the PRC and (iv) online platforms operated by 11 online key accounts.

- Stable and long term business relationship – We are in the course of negotiation with the LEGO Group for the renewal of the 2016 LEGO Agreement. As at the Latest Practicable Date, the LEGO Group confirmed its intention to renew the 2016 LEGO Agreement with our Group, subject to negotiation of details. We believe that we are a valuable business partner of the LEGO Group. The changes in certain terms to our distribution rights under the 2016 LEGO Agreement reflect a different form of cooperation between our Group and the LEGO Group. As at the Latest Practicable Date, our Directors were not aware of any material impediment for us to renew the 2016 LEGO Agreement upon its expiry. We are not aware that there would be any major obstacles in continuing our business relationship with the LEGO Group, given the fact that (i) we have been in compliance with the major terms and conditions set out in the previous and current distributorship agreements; and (ii) we are the largest toy retailer in terms of retail sales value in 2016 in the PRC with extensive retail and distribution networks.

- Multi-brand strategy – We have from time to time identified potential brands to cooperate with. During the Track Record Period, we entered into distributorship agreements with 11 new brand owners. As at 30 April 2017, our brand portfolio consisted of over 26 international brands. During the Track Record Period, our reliance on the LEGO Group was decreasing gradually with our sales of LEGO products accounting for 66.5%, 64.2%, 62.7% and 61.2%, respectively, of our revenue. Going forward, we will continue to explore the possibility of cooperating with and distributing a larger volume of other brands or new brands of toys.

- Product diversification – We see opportunities to grow our business in the infant products segment. Going forward, we expect to expand this segment and our revenue contribution from this segment to increase, and our revenue stream will be more diversified.

In view of the above, we believe that the level of our reliance on the LEGO Group will gradually decrease in the future.

Renewal status of the 2016 LEGO Agreement with the LEGO Group

It is expected that the details of the new distributorship agreement with the LEGO Group would be concluded before the end of 2017, and the formal agreement would be entered into at the same time or subsequently but no later than the first quarter of 2018. We believe that major terms of the new distributorship agreement are unlikely to materially deviate from the 2016 LEGO Agreement on the basis that as at the Latest Practicable Date, our Group received a contract proposal from the LEGO Group in which our Group's existing distribution right is proposed to remain unchanged and our recent discussion with the LEGO Group focused on trading terms including the payment term, purchase discounts and trade contributions. We do not preclude the possibility of downward adjustments to some of these trading terms which may affect our margin, rebate income and liquidity in the sales of LEGO products. However, we strive to keep the overall gross profit margin generated from sales of LEGO products through our self-operated retail channels unchanged under the new distributorship agreement and the gross profit margin of sales of LEGO products through our wholesale channels may be subject to further negotiation with the LEGO Group. Our Directors are of the view that such possible downward adjustments would not have material adverse impact on our operation and financial position after the Listing. The new distributorship agreement is expected to have a term of one year and is automatically renewable for one more year upon mutual agreement.

Risk factors relating to us doing business with the LEGO Group

Under the 2016 LEGO Agreement, we no longer have the exclusive distribution right to sell and distribute LEGO products in retail shops in respect of our self-operated retail channel from 2016 and to distributors in respect of our wholesale channel from 2017. In addition, under the 2016 LEGO Agreement, although we retain an exclusive distribution right to sell LEGO products in department stores, if the LEGO Group is of the view that we severely impair the LEGO Group's development strategy or significantly deviate from the LEGO Group's expectation in the PRC, the LEGO Group has the right to unilaterally terminate the exclusive distribution right granted to us. If we lose our exclusivity to sell LEGO products in department stores, our business, financial condition and results of operations could be materially and adversely affected.

According to the Euromonitor Report, notwithstanding a change in the exclusivity arrangements as mentioned above with effect from 2016, our Group has remained, up to the Latest Practicable Date, to be the only distributor in the PRC appointed by the LEGO Group in respect of the relevant LEGO products set out under the 2016 LEGO Agreement. However, there is no assurance that any new wholesaler(s) or distributor(s) will not be appointed by the LEGO Group in addition to, or in place of our Group in respect of such LEGO products. The 2016 LEGO Agreement remains in force until 31 December 2017. As at the Latest Practicable Date, our Group received a contract proposal from the LEGO Group in which our Group's existing distribution right is proposed to remain unchanged. There is no assurance that we will be able to renew the 2016 LEGO Agreement with the LEGO Group on favourable terms. If the LEGO Group appoints a new wholesaler or distributor, or if the terms of the new distributorship agreements made with the LEGO Group become less favourable to us, our business, financial condition and results of operations could be materially and adversely affected.

To the best of our knowledge and belief after having made all reasonable enquiries, the LEGO Group supplies LEGO products directly to a few of our wholesale customers which have been key accounts of the LEGO Group. During the Track Record Period, these wholesale customers only sourced non-LEGO products from us. We cannot rule out the possibility that they may compete with us in terms of product pricing and purchase costs going forward. Neither can we rule out the possibility that these wholesale customers will be appointed by the LEGO Group to be distributors for the PRC market in the future. After the 2016 LEGO Agreement became effective in 2016, there is no assurance that any of our wholesale customers will not enter into distributorship agreements with the LEGO Group directly and become our competitors. If any of the wholesale customers which source directly from the LEGO Group compete with us in terms of product pricing and purchase costs, or if the LEGO Group enters into a wholesale arrangement with our wholesale customers (other than the aforementioned wholesale customers) or other business partners in 2017 or thereafter, our business, financial condition and results of operations could be materially and adversely affected.

A majority of our revenue has been generated from sales under the LEGO brand. Negative publicity about the LEGO Group, or changes in market perception or customer preferences about the LEGO brand could materially and adversely affect the sales under the LEGO brand. Revenue growth from the sales under the LEGO brand may decrease over time. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Our sales and distribution channels

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

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

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		For the four months ended 30 April 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million (unaudited)*	*%*	*HK$ million*	*%*
Self-operated retail channels										
– Retail shops	277.4	20.9	368.6	23.6	443.4	27.0	136.8	27.4	168.7	29.8
– Consignment counters	474.5	35.8	559.4	35.9	539.0	32.9	183.6	36.8	204.5	36.1
– Online stores	59.5	4.5	33.1	2.1	65.3	4.0	10.0	2.0	18.7	3.3
Sub-total:	811.4	61.2	961.1	61.6	1,047.7	63.9	330.4	66.2	391.9	69.2
Wholesale channels										
– Online/offline wholesale										
• distributors	406.1	30.7	528.0	33.8	514.2	31.4	150.5	30.2	151.7	26.8
• hypermarket and supermarket chains	39.4	3.0	34.6	2.2	36.0	2.2	7.7	1.5	12.5	2.2
• online key accounts	67.7	5.1	37.6	2.4	40.5	2.5	10.4	2.1	10.6	1.8
Sub-total:	513.2	38.8	600.2	38.4	590.7	36.1	168.6	33.8	174.8	30.8
Total:	1,324.6	100.0	1,561.3	100.0	1,638.4	100.0	499.0	100.0	566.7	100.0

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

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		For the four months ended 30 April 2017	
	HK$ million	*Margin (%)*	*HK$ million*	*Margin (%)*	*HK$ million*	*Margin (%)*	*HK$ million (unaudited)*	*Margin (%)*	*HK$ million*	*Margin (%)*
Self-operated retail channels										
– Retail shops	160.0	57.7	216.8	58.8	253.6	57.2	76.7	56.1	94.4	56.0
– Consignment counters	278.5	58.7	334.0	59.7	313.4	58.1	101.3	55.2	119.4	58.4
– Online stores	29.7	49.9	16.3	49.2	31.9	48.9	4.2	42.0	9.6	51.3
Sub-total	468.2	57.7	567.1	59.0	598.9	57.2	182.2	55.1	223.4	57.0
Wholesale channels										
– Online/offline wholesale										
• Distributors	135.8	33.4	187.3	35.5	188.8	36.7	46.9	31.2	46.6	30.7
• Hypermarket and supermarket chains	15.8	40.1	14.6	42.2	13.3	36.9	2.7	35.1	4.3	34.4
• Online key accounts	24.9	36.8	15.2	40.4	16.8	41.5	3.9	37.5	4.4	41.5
Sub-total	176.5	34.4	217.1	36.2	218.9	37.1	53.5	31.7	55.3	31.6
Total	**644.7**	**48.7**	**784.2**	**50.2**	**817.8**	**49.9**	**235.7**	**47.2**	**278.7**	**49.2**

Retail shops

Our retail shops include both single-brand shops (i.e. those which sell products of the same brand, such as LEGO and Chicco) and multi-brand retail shops (i.e. those which are operated in our own brands, namely Kidsland and Babyland and distribute different branded toys and infant products). As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had 166, 198, 216 and 222 retail shops in the PRC, respectively; and as at 31 December 2016 and 30 April 2017, we had one retail shop (being LCS) in Hong Kong. For the 222 retail shops in the PRC as at 30 April 2017, 211 were multi-brand retail shops and 11 were single-brand retail shops. Our retail shops are typically located at major shopping malls.

Consignment counters

We have entered into consignment agreements with department stores and a renowned global toy store chain to operate consignment counters. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had 458, 497, 524 and 532 consignment counters in the PRC, respectively. For the 532 consignment counters in the PRC as at 30 April 2017, 398 were located at major department stores and 134 were consignment counters at the renowned global toy store chain.

Online stores

As at 30 April 2017, we established eight flagship online stores on Tmall and two online stores on JD.com. Other than our online Kidsland flagship store, each of our online stores offers products under its respective brand. We also launched a Kidsland store on Xiaohongshu (小紅書), a mobile application of online consumer platform operated by an Independent Third Party, in August 2017 which provides its registered users with a platform to purchase our selected products and other products on mobile phones.

Distributors

As at 31 December 2014, 2015 and 2016, we had 573, 694 and 805 distributors in the PRC, respectively. As at 30 April 2017, we had 878 distributors which operated a total of over 2,700 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. As at 30 April 2017, of the 878 distributors, about 19.4% of our distributors operated online stores.

Hypermarket and supermarket chains

Generally, hypermarkets and supermarkets are broadly categorised into (i) shopping clubs with membership system, (ii) upscale supermarkets, (iii) community supermarkets; and (iv) convenience stores. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had wholesale arrangement with seven, eight, 12 and 12 hypermarket and supermarket chains in the PRC, covering 362, 326, 629 and 635 retails points (based on the information provided by such hypermarket and supermarket chains) in Tier 1, 2 and 3 cities, respectively.

Online key accounts

To access a rapidly growing online market, we also sell our products to online key accounts which operate online platforms, such as JD.com, Amazon, VIP.com, Dangdang and Suning. Our online key accounts purchase products from us and then on-sell to end-users through their online platforms. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we sold our products to 11, 11, 14 and 15 online key accounts, respectively.

Our distributorship agreements

The following table sets forth a breakdown of our distributorship agreements that were outstanding as at 31 August 2017 based on their maturity profile:

	Number of distributorship agreement	**% of Total**
Expired or to expire on or before 31 December 2017	7	29.2
To expire after 31 December 2017 but prior to 31 December 2018	10	41.6
To expire after 31 December 2018 *(Note)*	7	29.2
Total	24	100.0

Note: One distributorship agreement which expired on 31 December 2016 was automatically renewed until terminated by either party by giving the other party a written termination notice of at least six months. As at the Latest Practicable Date, we had not given nor received a termination notice to terminate the distributorship agreement.

Of the distributorship agreements that will expire on or before 31 December 2017, as at the Latest Practicable Date, we were in negotiation with all of the relevant brand owners.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and enable us to capture future opportunities in the toys and infant products market:

- We are the largest toy retailer in terms of retail sales value in 2016 in the PRC; and we have a diverse retail network covering selected strategic geographic locations
- We have an extensive distribution network
- We have a stable and collaborative relationship with renowned international brand owners and are able to source and distribute diverse popular and/or high-quality toys and infant products
- Multi-brand strategy enables us to increase our bargaining power and attract a wider customer base
- We have a stable and seasoned management team with proven track record

BUSINESS STRATEGIES

We aim to maintain and enhance our leading position in China's toys and infant products market and strengthen our position in toy retailing in Hong Kong so that we will continue to be the preferred business partner of international brand owners of toys and infant products in the PRC and Hong Kong. In order to further develop and strengthen our business, we intend to expand our business through the following:

- Increasing our penetration of existing sales channels and expanding our geographic coverage to additional cities with high growth potential in the PRC, and to Hong Kong
- Strengthening recognition of our existing brands and enhancing consumer loyalty, and developing products under our existing or new brands
- Opening experience centres
- Building our big data analysis capabilities
- Pursuing strategic alliances and acquisitions selectively when opportunities arise

SUMMARY HISTORICAL FINANCIAL INFORMATION

Results of operations

The following table sets forth selected items from combined statements of profit or loss and other comprehensive income for the periods indicated:

	For FY2014	For FY2015	For FY2016	For the four months ended 30 April 2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Revenue	1,324,649	1,561,291	1,638,374	498,979	566,719
Cost of goods sold	(679,970)	(777,132)	(820,584)	(263,326)	(288,001)
Gross profit	644,679	784,159	817,790	235,653	278,718
Other income	21,651	25,679	20,374	6,467	5,035
Other gains and losses	(5,650)	(10,265)	1,256	1,911	(2,342)
Selling and distribution expenses	(493,952)	(612,224)	(648,808)	(194,554)	(216,387)
General and administrative expenses	(39,274)	(53,859)	(64,443)	(20,757)	(27,788)
Listing expenses	–	–	(8,525)	(1,605)	(3,001)
Profit before tax	127,454	133,490	117,644	27,115	34,235
Income tax expense	(26,807)	(24,348)	(27,658)	(6,985)	(8,658)
Profit for the year/period	100,647	109,142	89,986	20,130	25,577

Combined statements of financial position

The following table sets forth a summary of information on our financial position as at the dates indicated:

	As at 31 December 2014	2015	2016	As at 30 April 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total non-current assets	50,714	67,081	75,550	77,507
Total current assets	707,008	767,242	891,987	823,996
Total current liabilities	534,851	520,170	596,522	424,694
Net current assets	172,157	247,072	295,465	399,302
Total non-current liabilities	6,626	11,315	8,574	7,739
Net assets	216,245	302,838	362,441	469,070
Total equity	216,245	302,838	362,441	469,070

Summary of combined cash flow statements

The following table sets forth a summary of our cash flow information for the periods indicated:

	FY2014	FY2015	FY2016	For the four months ended 30 April 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash from (used in) operating activities	54,054	(17,758)	61,161	(59,029)
Net cash from (used in) investing activities	(17,516)	(23,104)	(31,594)	(7,366)
Net cash from (used in) financing activities	47,453	16,062	(1,426)	32,545
Net increase/(decrease) in cash and cash equivalents	83,991	(24,800)	28,141	(33,850)
Cash and cash equivalents at beginning of the year/period	107,830	191,391	156,377	173,365
Effect of foreign exchange rate changes	(430)	(10,214)	(11,153)	(1,701)
Cash and cash equivalent at end of year/period	**191,391**	**156,377**	**173,365**	**137,814**

Key financial ratios

The following table sets forth our key financial ratios as at each of the dates indicated:

	As at/for the year ended 31 December			As at/for the four months ended 30 April
	2014	2015	2016	2017
Return on equity (%)	46.5	36.0	24.8	16.4*
Current ratio	1.32	1.47	1.50	1.94
Quick Ratio	0.65	0.63	0.65	0.80
Inventory turnover (days)	166	188	211	206
Gross profit margin (%)	48.7	50.2	49.9	49.2
Net profit margin (%)	7.6	7.0	5.5	4.5

Note: * annualised

For details, please refer to the section headed "Financial Information – Key financial ratios" from page 305 of this prospectus.

Our inventory turnover days increased from 166 days for FY2014 to 188 days for FY2015, and further increased to 211 days for FY2016 and subsequently decreased to 206 days for the four months ended 30 April 2017. Such increase was principally a result of the increase in the number of our retail points and consignment counters having relatively longer inventory turnover days as certain amount of base stocks on our shelves needed to be maintained to showcase our products; the increase in number of brands of products as new brands normally have relatively longer inventory turnover days; the fulfilment of purchase targets set up by certain brands owners; and the increase in the percentage of sales from self-operated retail channels which generally has a higher inventory turnover days. As our Group implemented inventory control (e.g. selling slow-moving inventories at a discount and implementing a stricter procurement plan – please see the section headed "Business – Logistics and Inventory Management – Inventory control" for further details), our inventory turnover days decreased to 206 days for the four months ended 30 April 2017.

Our net profit margin decreased from approximately from 7.6% for FY2014 to 7.0% for FY2015 and further decreased to approximately 5.5% for FY2016 and 4.5% for the four months ended 30 April 2017, which was primarily due to the incurrence of listing expenses, decrease in promotion income from brand owners, increase in consignment expenses and rental expenses and building management fee and increase in salaries, other benefits and retirement benefit schemes contribution.

We recorded negative operating cash flow for FY2015 and the four months ended 30 April 2017. Our net cash used in operating activities was approximately HK$17.8 million for FY2015. This was primarily due to the cash inflow of approximately HK$159.7 million from operating activities before the decrease in working capital of approximately HK$147.3 million and cash payment for PRC and HK income tax paid of approximately HK$30.2 million. Our net cash used in operating activities was approximately HK$59.0 million for the four months ended 30 April 2017. This was primarily due to the cash inflow of approximately HK$50.1 million from operating activities before the decrease in working capital of approximately HK$85.9 million and cash payment for PRC income tax paid of approximately HK$23.2 million. For reasons of the negative cash flow for FY2015 and the four months ended 30 April 2017, please refer to the section headed "Financial Information – Liquidity, Financial Resources and Capital Structure – Cash flow generated from/(used in) operating activities" in this prospectus.

KEY OPERATIONAL INFORMATION

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

	FY2014	For FY2015	FY2016	For the four months ended 30 April 2017
Growth in comparable sales of our self-operated retail points				
A. Retail shops	26.1%	8.1%	7.8%	11.1%
B. Consignment counters	12.5%	8.0%	(4.2)%	8.9%
C. Overall retail points	16.8%	8.0%	0.5%	9.6%

For details of the calculation of comparable retail points sales during the Track Record Period, please refer to section headed "Financial Information – Description of principal components of combined statement of profit or loss and other comprehensive income – Revenue – Growth in comparable self-operated retail points sales during comparable periods" in this prospectus.

As shown in the table above, the comparable retail points sales growth of our retail shops and our consignment counters decreased gradually throughout FY2014, FY2015 and FY2016. Our Directors believe the gradual decrease of the growth rate was primarily affected by the devaluation of RMB against HK$ for FY2014, FY2015 and FY2016 and was also attributable to the increase in number of retail points, including retail shops and consignment counters which is in line with management's strategy in expanding our market presence and increase our overall sales.

Subsequent to FY2016, our comparable retail points sales growth of our retail shops and our consignment counters increased substantially for the four months ended 30 April 2017. Our Directors believe such increase was a result of our effort in holding promotional campaigns and our special promotional offers given to members of our membership programme.

Our retail points during the Track Record Period and up to 31 August 2017

As at 31 December 2014, we had 624 retail points in the PRC, comprising 166 retail shops and 458 consignment counters. As we continued to expand our retail network in the PRC, the number of retail points increased to 695 as at 31 December 2015 and further increased to 740 as at 31 December 2016. As at 30 April 2017, we had 754 retail points which were located at selected strategic geographical regions, most of which were in Tier 1 and Tier 2 cities in the PRC and operated one retail shop (being LCS) in Hong Kong. As at 31 August 2017, the number of our retail points in the PRC further increased to 755, comprising 231 retail shops and 524 consignment counters and we operated two retail shops (being LCS) in Hong Kong.

SHAREHOLDER INFORMATION

Immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, options which were granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Post-IPO Share Option Scheme), our Company will be owned as to approximately 56.151% by Asian Glory which is wholly-owned by Mr. Lee. Mr. Lee is the chairman of the Board and is one of our executive Directors. For details of Mr. Lee's background, please refer to the section headed "Directors and Senior Management – Board of Directors – Executive Directors" from page 215 of this prospectus.

We entered into certain connected transactions with certain associates of our Controlling Shareholders which will constitute exempt continuing connected transactions under the Listing Rules upon the Listing. For details, please refer to the section headed "Connected Transactions" from page 207 of this prospectus. Apart from our Group's business, our Controlling Shareholders and their close associates currently own other businesses which are non-toys retailing or wholesaling related, such as toys-related OEM business, which is conducted through a number of wholly and non-wholly owned entities held directly and indirectly. Our Directors are of the view that due to the differences in business nature and customer focus, the toy manufacturing business owned by our Controlling Shareholders and their close associates outside of our Group is not in competition, directly or indirectly, with those of our Group. For details, please refer to the section headed "Relationship with our Controlling Shareholders – Overview" from page 200 of this prospectus.

PRE-IPO SHARE OPTION SCHEME

In recognition of the contributions made by the employees of our Group towards its growth and success, on 20 October 2017, a total of 78 eligible participants have been granted options to subscribe for an aggregate of 47,500,000 Shares, representing approximately 5.94% of the issued Shares immediately following the Global Offering (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which were granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Post-IPO Share Option Scheme). For details, please refer to the section headed "Statutory and General Information – D. Other Information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

DIVIDEND

During the Track Record Period and up to the Latest Practicable Date, our Company declared a special dividend of approximately HK$50 million to its then holding company, which will be paid prior to Listing. The special dividend will be paid in cash out of our internally generated resources. Save for the above, no dividend was paid or declared by our Company or its subsidiaries to external parties during the Track Record Period and from 30 April 2017 to the Latest Practicable Date. Following completion of the Global Offering, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and amount of dividends declared by our Board will depend upon our Group's (i) overall results of operation; (ii) financial position; (iii) capital requirements; (iv) shareholders' interests; (v) future prospects; and (vi) other factors which our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Our Group currently has neither adopted any dividend policy nor determined any target dividend payout rate after Listing. Nevertheless, this should not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. There is no expected dividend payout ratio after the Listing.

RECENT DEVELOPMENT

Our business model, revenue structure and cost structure basically remained unchanged, subsequent to the Track Record Period and up to the Latest Practicable Date. Based on the unaudited consolidated management accounts of our Group, we continued to record growth in our revenue for the four months ended 31 August 2017 as compared to the corresponding period in FY2016. Such growth in our revenue was primarily due to increase in quantity sold. Our gross profit margin for the four months ended 31 August 2017 dropped slightly due to the increase in cost of purchase.

Subsequent to the Track Record Period, we have continued to expand our self-operated retail and wholesale channels and product offerings. For our self-operated retail channels, as at 31 August 2017, the number of our retail points in the PRC increased to 755, comprising 231 retail shops and 524 consignment counters, from 754 as at 30 April 2017 and we operated two retail shops (being LCS) in Hong Kong. As at the Latest Practicable Date, we had ten flagship stores on Tmall and two online stores on JD.com. We also launched a Kidsland store on Xiaohongshu (小紅書), a mobile application of online consumer platform operated by Independent Third Party, in August 2017 which provides its registered users with a platform to purchase our selected products and other products on mobile phones. For our wholesale channels, as at 31 August 2017, we had 919 distributors in the PRC and had wholesale arrangements with 14 hypermarket and supermarket chains and 16 online key accounts in the PRC. As at 31 August 2017, we sold LEGO products and/or other toys or infant products via (i) 514 retail points of our Group in 64 cities across 25 provinces, autonomous regions and municipalities in the PRC; (ii) three online stores of our Group; (iii) over 2,000 retail shops operated by our wholesale customers in 103 cities across 30 provinces, autonomous regions and municipalities in the PRC and (iv) online platforms operated by 11 online key accounts.

Subsequent to the Track Record Period and up to 31 August 2017, one distributorship agreement expired without renewal and our Group entered into distributorship agreements with two brand owners, under which our Group is authorised to distribute products under the specified brands or other related brands exclusively in the PRC for a specified term. Such agreements are renewable for a further term of two years upon mutual agreement and contain terms similar to other distributorship agreements entered into by us and other brand owners. Subsequent to the Track Record Period and up to the Latest Practicable Date, we were in negotiation with three potential brand owners.

Subsequent to the Track Record Period and up to the Latest Practicable Date, save for the listing expenses as disclosed in the paragraph headed "Listing expenses" in this section below, we did not have any significant non-recurrent items in our combined statements of profit or loss and other comprehensive income.

Our Directors have confirmed that up to the date of this prospectus, save for the listing expenses as mentioned above, there had been no material adverse change in our financial or trading position or prospects since 30 April 2017, and notwithstanding the change in certain terms (particularly, ceasing to have exclusive distribution rights in certain distribution channels) under the 2016 LEGO Agreement, there has been no event since 30 April 2017 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.85, being the mid-point of the indicative Offer Price range, we estimate that we will receive net proceeds of approximately HK$339.4 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering assuming the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering for the following purposes:

- approximately 61% or HK$207.0 million of the net proceeds from the Global Offering, will be used to expand our retail network in the PRC and Hong Kong;
- approximately 18% or HK$61.1 million of the net proceeds from the Global Offering, will be used to strengthen our capabilities in product development under our existing or new brands;
- approximately 11% or HK$37.3 million of the net proceeds from the Global Offering, will be used to develop experience centres and associated products; and
- approximately 10% or HK$34.0 million of the net proceeds from the Global Offering, will be used towards working capital and other general corporate purposes.

For details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" from page 308 of this prospectus.

LISTING EXPENSES

The total amount of listing expenses that will be borne by us in connection with the Global Offering is estimated to be about HK$42.8 million (based on the mid-point of our indicative price range for the Global Offering), of which about HK$17.3 million is expected to be accounted for as a deduction from equity in accordance with the relevant accounting standard. The remaining HK$25.5 million listing expenses was or is expected to be charged to our profit or loss accounts, of which HK$8.5 million and HK$3.0 million was charged for FY2016 and the four months ended 30 April 2017, respectively and about HK$14.0 million is expected to be charged upon Listing. It should be noted that the professional fees and/or other expenses related to the preparation of Listing subsequent to 30 April 2017 are the current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 200,000,000 Shares are issued in the Global Offering, (ii) the Over-allotment Option is not exercised, and (iii) 800,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an indicative Offer Price of HK$2.2 per Share	Based on an indicative Offer Price of HK$1.5 per Share
Market capitalisation of the Shares (in millions)$^{(Note\ 1)}$	HK$1,760.0	HK$1,200.0
Unaudited pro forma adjusted combined net tangible assets per Share$^{(Note\ 2)}$	1.17	1.00

Notes:

1. The calculation of the market capitalisation is based on 800,000,000 Shares expected to be in issue following the completion of the Capitalisation Issue and the Global Offering.

2. The unaudited pro forma adjusted combined net tangible assets value per Share has been arrived at after making the adjustments referred to in "A. Unaudited pro forma statement of adjusted combined net tangible assets" in Note 4 to Appendix II to this prospectus and on the basis of 800,000,000 Shares to be in issue following the completion of the Capitalisation Issue and the Global Offering.

RISK FACTORS

Our business is subject to numerous risks and there are risks relating to investment in the Offer Shares. We believe that the following are some of the major risks that may have a material adverse effect on us:

(i) Those risk factors under the paragraph headed "Overview – Risk factors relating to us doing business with the LEGO Group" (page 5) of this "Summary" section.

(ii) Our major brand owners may change their existing sales or marketing strategy by changing their business strategy, reducing their sales or production volume, changing their selling prices or appointing other distributors which may compete with us in the PRC.

(iii) We operate in a highly competitive and fast changing market and increased competition may result in a loss of our market share in the PRC. If we are unable to retain and attract end-customers and compete effectively against our competitors for favourable terms in relation to the location of retail points, our business, financial condition and results of operations may be materially and adversely affected.

(iv) We may not be able to identify toy and infant products trends and consumer preferences in a timely manner. If we fail to accurately anticipate such trends and react to prevailing consumer preferences in a timely manner, it could result in lower sales volumes, lower selling prices, inventory build-up and lower profits, which may have a material adverse effect on our business, financial condition and results of operations.

The risks mentioned above are not the only significant risks that may affect our business, operating and financial results. As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should carefully read the entire section headed "Risk Factors" from page 34 of this prospectus.

LEGAL PROCEEDINGS AND NON-COMPLIANCE INCIDENTS

There were certain deficiencies in our legal and statutory compliance in the PRC during the Track Record Period including: (i) non-compliance in relation to social insurance fund and housing provident fund contributions; and (ii) non-compliance in relation to the withholding enterprise income tax. Pursuant to the relevant laws and regulations, the possible legal consequences and liabilities include administrative penalties or punitive measures imposed on the relevant member of our Group, payment of fines, outstanding contributions and/or overdue interests as the case may be. For details, please refer to the section headed "Business – Non-compliance incidents" from page 189 of this prospectus.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"2016 LEGO Agreement"	distributorship agreement dated 23 February 2016 and entered into between a member of the LEGO Group on the one party and Beijing Haisile, Guangzhou Haisile, Shanghai Haisile, Shenzhen Haisile and Chengdu Haisile on the other part in respect of the sale and distribution of products under the LEGO brand in the PRC
"AIC"	Administration of Industry and Commerce (工商行政管理機關) in the PRC or, where the context so requires, SAIC or its delegated authority at provincial, municipal or other local level
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles" or "Articles of Association"	the articles of association of our Company, conditionally adopted on 20 October 2017 and with effect upon Listing, a summary of which is contained in "Appendix III – Summary of the Constitution of our Company and Cayman Company Law" to this prospectus, and as amended from time to time
"Asian Glory"	Asian Glory Holdings Ltd., a company incorporated under the laws of BVI with limited liability on 30 March 1998 and wholly-owned by Mr. Lee
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Haisile"	Kidsland Trading Company (Beijing). Ltd.* (北京孩思樂商業有限公司), a company established under the laws of the PRC on with limited liability 14 June 2006 and an indirect wholly-owned subsidiary of our Company
"Beijing Huizhilesi"	Beijing Huizhilesi Commercial Co., Ltd.* (北京匯智樂思商貿有限公司), a company established under the laws of the PRC on with limited liability 30 December 2011 and an indirect wholly-owned subsidiary of our Company

"Beijing Kaiqile"	Beijing Kaiqile Commercial Co., Ltd.* (北京凱奇樂商業有限公司), a company established under the laws of the PRC with limited liability on 20 October 2016 and an indirect wholly-owned subsidiary of our Company
"Board"	the board of Directors
"Brilliant Sino"	Brilliant Sino Global Limited, a company with limited liability incorporated under the laws of BVI on 20 November 2013 and wholly-owned by Mr. Choi Kei Fung, a director of Silverkids
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of 599,899,997 Shares to be made upon capitalisation of sums standing to the credit of the share premium account of our Company as referred to in the section headed "Statutory and General Information – A. Further information about our Group – 3. Resolutions in writing of our Shareholders passed on 20 October 2017" in Appendix IV to this prospectus
"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 a 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 or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant

"Chengdu Haisile"	Chengdu Haisile Commercial Co., Ltd.* (成都孩思樂商貿有限公司), a company established under the laws of the PRC with limited liability on 3 November 2010 and an indirect wholly-owned subsidiary of our Company
"China" or "PRC"	the People's Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, Macau and Taiwan
"Chinese Government" or "PRC Government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"Circular No. 7"	Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得税若干問題的公告) issued by SAT and effective on 3 February 2015
"Circular No. 37"	Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) issued by SAFE and effective on 14 July 2014
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CNCA"	Certification and Accreditation Administration of the PRC (中華人民共和國國家認證認可監督管理委員會)
"Companies Law" or "Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Company" or "our Company"	Kidsland International Holdings Limited (凱知樂國際控股有限公司), incorporated under the laws of Cayman Islands as an exempted company with limited liability on 26 April 2017
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Mr. Lee and Asian Glory
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"COWUMPO"	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"CSRC"	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Deed of Indemnity"	the deed of indemnity dated 25 October 2017 and executed by our Controlling Shareholders as indemnifiers in favour of our Company (for itself and as trustee for each of its present subsidiaries), in respect of, among other things, certain indemnities including taxation, further particulars of which are set out in the section headed "Statutory and General Information – 3. Tax and other indemnities" of this prospectus
"Deed of Non-competition"	the deed of non-competition dated 25 October 2017 and executed by our Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries), particulars of which are set out in the section headed "Relationship with our Controlling Shareholders – Non-competition undertaking" of this prospectus
"Director(s)"	the director(s) of our Company

"Dongguan Silverlit"	Dongguan Silverlit Toys Co., Ltd.* (東莞銀輝玩具有限公司), a company established under the laws of the PRC with limited liability on 24 November 1993 and indirectly owned as to 31% by Mr. Choi Kei Fung (an indirect shareholder and director of Silverkids) and 69% by his associates
"Dr. Lo"	Dr. Lo Wing Yan William (盧永仁), our executive Director and a connected person of our Company
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated on 16 March 2007 and became effective as at 1 January 2008
"Eurojoy"	Eurojoy Limited (歐之樂有限公司), a company incorporated under the laws of Hong Kong with limited liability on 27 July 2012 and wholly-owned by FCPR Cathay Capital II
"Euromonitor Report"	the report prepared by Euromonitor International Limited in relation to the market research on industry of the Company's business
"FY2014", "FY2015" and "FY2016"	financial years ended 31 December 2014, 2015 and 2016, respectively
"GDP"	gross domestic product (all references to GDP growth rates are real as opposed to nominal rates of GDP growth)
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** application form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider, designated by our Company
"Group", "our Group", "we", "us" and "our"	our Company and, unless the context otherwise requires, all of its subsidiaries, or where the context refers to any time prior to its incorporation, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganisation

"Guangzhou Haisile"	Kidsland Company (Guangzhou) Ltd.* (廣州孩思樂商貿有限公司), a company established under the laws of the PRC with limited liability on 18 December 2012 and an indirect wholly-owned subsidiary of our Company
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK eIPO White Form"	The application 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 of **HK eIPO White Form** at **www.hkeipo.hk**
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKSCC"	Hong Kong Securities Clearing Company 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 20,000,000 Shares being initially offered by our Company pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"Hong Kong Public Offering"	the offer for subscription or for sale of Offer Shares to the public in Hong Kong (subject to adjustment as described in the section headed "Structure and Conditions of the Global Offering") at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions described 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 Underwriters"	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed "Underwriting – Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 30 October 2017 relating to the Hong Kong Public Offering entered into among our Company, our Controlling Shareholders, the executive Directors, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters, as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Underwriting Agreement" in this prospectus
"Independent Third Party(ies)"	a person or persons or a company or companies which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquires, is not or are not our connected person(s) within the meaning ascribed under the Listing Rules
"International Offer Shares"	the 180,000,000 Shares being initially offered by our Company pursuant to the International Offering, together with any additional Shares offered pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"International Offering"	the offering of International Offer Shares by the International Underwriters, as further described in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering that are expected to enter into the International Underwriting Agreement

"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or around Friday, 3 November 2017 among our Company, our Controlling Shareholders, the executive Directors, the Sole Global Coordinator and the International Underwriters in respect of the International Offering, as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – International Underwriting Agreement" in this prospectus
"Kidsland China"	Kidsland China Limited* (廣州智樂商業有限公司), a company established under the laws of the PRC with limited liability on 16 April 2001 and an indirect wholly-owned subsidiary of our Company
"Kidsland Distribution"	Kidsland Distribution Limited (智樂寶有限公司), previously known as Smart Honour Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability on 11 July 2011 and an indirect wholly-owned subsidiary of our Company
"Kidsland HK"	Kidsland HK Limited (孩思樂香港有限公司), a company incorporated under the laws of Hong Kong with limited liability on 3 September 2010 and an indirect wholly-owned subsidiary of our Company
"Kidsland Holdings"	Kidsland Holdings Limited (孩思樂控股有限公司), a company incorporated under the laws of the BVI with limited liability on 6 September 2010 and a direct wholly-owned subsidiary of our Company
"Kidsland LCS"	Kidsland LCS Limited, a company incorporated under the laws of Hong Kong with limited liability on 23 March 2016 and an indirect wholly-owned subsidiary of our Company
"Latest Practicable Date"	22 October 2017, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
"LEGO Group"	the group of companies comprising LEGO A/S and its subsidiaries, being one of our brand owners, and an Independent Third Party
"Listing"	the listing of the Shares on the Main Board

"Listing Date"	the date expected to be on or about Friday, 10 November 2017, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company, adopted on 20 October 2017, a summary of which is set out in "Appendix III – Summary of the Constitution of our Company and Cayman Company Law" to this prospectus, and as amended and restated from time to time
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Lee"	Mr. Lee Ching Yiu (李澄曜), our executive Director and a connected person of our Company
"Ms. Zhong"	Ms. Zhong Mei (仲梅), our executive Director and a connected person of our Company
"NDRC"	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of no more than HK$2.2 and expected to be not less than HK$1.5, at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in the section headed "Structure and Conditions of the Global Offering – Price payable on application" in this prospectus

"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option
"Over-allotment Option"	the option granted by us to the International Underwriters exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) pursuant to which our Company may be required to allot and issue up to 30,000,000 Shares at the Offer Price (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocation in the International Offering, the details of which are described in the section headed "Underwriting" in this prospectus
"PBOC"	People's Bank of China (中國人民銀行)
"Post-IPO Share Option Scheme"	the share option scheme conditionally adopted by our Shareholders passed on 20 October 2017, the principal terms of which are summarised in the section headed "Statutory and General Information – D. Other Information – 1. Post-IPO Share Option Scheme" in Appendix IV to this prospectus
"PRC Company Law"	the Company Law of the PRC《中華人民共和國公司法》, as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"PRC Legal Advisers"	Guantao & Chow, the legal adviser to our Company as to the laws of the PRC
"Pre-IPO Share Option Scheme"	the share option scheme approved and adopted by our Shareholders on 20 October 2017, the principal terms of which are summarised in the section headed "Statutory and General Information – D. Other Information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus
"Price Determination Agreement"	the agreement to be entered into by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price

"Price Determination Date"	the date, expected to be on or around Friday, 3 November 2017 but no later than Thursday, 9 November 2017, on which the Offer Price is to be fixed by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) for the purposes of the Global Offering
"Prince Asia"	Prince Asia Limited (百威順有限公司), a company incorporated under the laws of Hong Kong with limited liability on 22 November 2013 and an indirect non wholly-owned subsidiary of our Company
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganisation"	the reorganisation of our Group in preparation for the Listing as described in the section headed "History, Reorganisation and Corporate Structure – Reorganisation" in this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"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
"Shanghai Haisile"	Kidsland Trading Company Shanghai Co., Ltd.* (上海孩思樂商貿有限公司), a company established under the laws of the PRC with limited liability on 28 July 2008 and an indirect wholly-owned subsidiary of our Company

"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
"Share(s)"	ordinary share(s) in the share capital of our Company with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of Share(s)
"Shenzhen Haisile"	Kidsland Trading Company* (深圳孩思樂商貿有限公司), a company incorporated under the laws of the PRC with limited liability on 29 August 2008 and an indirect wholly-owned subsidiary of our Company
"Silverkids"	Silverkids Inc., a company incorporated under the laws of the BVI with limited liability on 6 January 2014 and owned as to 58% by us and as to 42% by Brilliant Sino
"Silverkids Group"	Silverkids and its subsidiaries
"Silverkids Tianjin"	Silverkids Corporation (Tianjin) Ltd. (銀樂寶(天津)商貿有限公司), a company established under the laws of the PRC with limited liability on 17 February 2014 and an indirect non wholly-owned subsidiary of our Company
"Sole Global Coordinator", "Sole Bookrunner", "Sole Lead Manager" or "Stabilising Manager"	Haitong International Securities Company Limited, a corporation registered under the SFO permitted to carry on Type 1 (dealing in securities), Type 3 (leveraged foreign exchange trading) and Type 4 (advising on securities) regulated activities under the SFO, the sole global coordinator, the sole bookrunner, the sole lead manager and the stabilising manager of the Global Offering
"Sole Sponsor"	Haitong International Capital Limited, a licenced corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity as defined in the SFO
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Borrowing Agreement"	a stock borrowing agreement expected to be entered into between Asian Glory and the Stabilising Manager (or its affiliate) on or about the Price Determination Date

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs in Hong Kong as approved by the SFC and as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising the three financial years ended 31 December 2016 and the four months ended 30 April 2017
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America
"U.S. dollars" or "US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"U.S. Securities Act"	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"we", "us", "our", and "Group"	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
"**WHITE** Application Form(s)"	the application form(s) to be completed in accordance with the instructions in section headed "How to Apply for Hong Kong Offer Shares – 3. Applying for Hong Kong Offer Shares – Which application channel to use" in this prospectus
"**YELLOW** Application Form(s)"	the application form(s) to be completed in accordance with the instructions in section headed "How to Apply for Hong Kong Offer Shares – 3. Applying for Hong Kong Offer Shares – Which application channel to use" in this prospectus
"%"	per cent.

Unless expressly stated or the context otherwise requires, all data in this prospectus is as of the date of this prospectus.

Certain amounts and percentage figures included in this prospectus 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.

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

In this prospectus, unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at an exchange rate of HK$1.00 = RMB0.857 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only and are marked with "*".

This glossary contains an explanation of certain technical terms used in this prospectus in connection with our Group and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"Amazon"	amazon.cn (亞馬遜中國), formerly known as yoyo.com (卓越網) and Yoyo Amazon (卓越亞馬遜), acquired by Amazon.com in 2004
"Breakeven Point"	the period of time from the commencement of operation to the month in which the monthly operating revenue is at least equal to the monthly operating expenses (including concession fees, rental, staff costs, utility charges, tax and depreciation expenses)
"Dangdang"	dangdang.com (當當網), a Chinese e-commerce website, the major product categories include household appliances, clothing, cosmetics, digital, home appliances, books, audio, maternity and child products
"distributor"	an end-customer of our Group, which is engaged in (i) only wholesale activities, or (ii) both wholesale and retail/part of wholesale customers activities
"GFA"	gross floor area
"Investment Payback Point"	the period of time from the commencement of operation to the month in which the accumulated net profit is at least equal to the costs of opening and operating an outlet (including any incurred capital expenditures and accumulated ongoing operating expenses such as initial inventory costs, concession fees, rental, staff costs, utility charges and tax)
"JD.com"	jd.com (京東商城), a Chinese e-commerce website which offers a wide range of products including household appliances, digital products, clothing, shoes and toys
"LEGO Certified Store" or "LCS"	a store, the design of which adheres to the fit-out and experience guidelines laid down by the LEGO Group, in order for customers to enjoy consistent shopping experience

"online key account"	operator of third party online business-to-consumer (B2C) platforms
"sq.m."	square metre(s)
"Suning"	suning.com (蘇寧易網), a Chinese e-commerce website, which offers a wide range of products including electronic products, household appliances, clothing, cosmetics, baby and infant products, toys and books
"Tier 1 city(ies)"	Beijing, Shanghai, Guangzhou and Shenzhen
"Tier 2 city(ies)"	tier 2 cities in which we have (or our distributors have) retail stores, namely, Tianjin, Shenyang, Nanjing, Hangzhou, Chengdu, Chongqing, Qingdao, Jinan, Xian, Wuhan, Suzhou and Harbin
"Tier 3 city(ies)"	in respect of cities (including provincial capital cities and prefecture level cities) which we have (or our distributors have) retail stores, except for the Tier 1 and Tier 2 cities
"Taobao"	taobao.com (淘寶網), an online shopping website originated from the PRC, which facilitates consumer to consumer retail by providing a platform for small businesses and individual entrepreneurs
"Tmall"	tmall.com (天貓商城), formerly known as Taobao Mall, a Chinese dedicated business-to-consumer platform within its consumer e-commerce website
"VIP.com"	vip.com (唯品會), a Chinese e-commerce website which offers branded products at discounts to retail prices with product categories including fashion clothing, accessories, shoes, cosmetics, household merchandise
"wholesale customers"	collectively distributors, hypermarket and supermarket chains and online key accounts

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as "expect", "believe", "plan", "intend", "project", "anticipate", "seek", "may", "will", "would" and "could" or similar words or statements, in particular, in the sections headed "Business" and "Financial Information" in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in the section headed "Financial Information" in this prospectus with respect to trend in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

You should carefully consider all of the information in this prospectus including the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being offered in the Global Offering. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and our business and operations are conducted substantially in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business may be adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of these risks and uncertainties and you may lose all or part of your investment. For details regarding the PRC and other relevant matters, please see the sections headed "Regulatory Overview" and "Appendix III – Summary of the Constitution of Our Company and Cayman Company Law" in this prospectus.

This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

We may lose our exclusive distribution right to sell LEGO products in certain distribution channels and/or fail to renew the 2016 LEGO Agreements with the LEGO Group which could have adverse effect on our business

Our revenue attributable to LEGO products may slow down since the effective date of the 2016 LEGO Agreement. Prior to the entering into of the 2016 LEGO Agreement, under the distributorship agreement for 2013-2015, we were not granted the exclusive right to sell LEGO products on the online channel and were not granted the right to sell LEGO products to a few of our wholesale customers which have been key accounts of the LEGO Group. Under the 2016 LEGO Agreement, we no longer have the exclusive distribution right to sell and distribute LEGO products in retail shops in respect of our self-operated retail channel from 2016 and to distributors in respect of our wholesale channel from 2017. Accordingly, the LEGO Group can cooperate with other business partners and sell to them directly the LEGO products. In addition, under the 2016 LEGO Agreement, although we have retained the exclusive distribution right to sell the LEGO products in the department store channel, however if the LEGO Group is of the view that we severely impair the LEGO Group's development strategy or significantly deviates from the LEGO Group's expectation in the PRC, the LEGO Group has the right to unilaterally terminate the exclusive distribution right granted to us. Furthermore, the 2016 LEGO Agreement remains in force until 31 December 2017. Since sales of LEGO products contributed significant proportion of our revenue, accounting for approximately 66.5%, 64.2%, 62.7% and 61.2%, respectively, of our revenue for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, so if we lose our exclusivity to distribute the LEGO products in certain distribution channels or if we fail to renew the 2016 LEGO Agreement with the LEGO Group, we may encounter increased competition from the LEGO Group and/or other new business partners of the LEGO Group and/or discontinue our business relationship with the LEGO Group, any of which may materially and adversely affect our business and financial performance.

According to the Euromonitor Report, notwithstanding a change in the exclusivity arrangements as mentioned above with effect from 2016, the Group has remained, up to the Latest Practicable Date, to be the only distributor in the PRC appointed by the LEGO Group in respect of the relevant LEGO products set out under the 2016 LEGO Agreement. However, there is no assurance that any new wholesaler(s) or distributor(s) ("**New Wholesaler**") will not be appointed by the LEGO Group in addition to, or in place of our Group in respect of such LEGO products. If such New Wholesaler is appointed in addition to our Group, some or all of the existing wholesale customers of our Group may choose to source LEGO products from such New Wholesaler, and our revenue attributable to the wholesale channels may fall, and our operations and financial performance may be materially and adversely affected. Further, if the wholesale prices for the relevant LEGO products set by the New Wholesaler are lower than those set by ours, the ultimate retail prices for the relevant LEGO products may also be lowered, which may indirectly affect our retail businesses by dropping retail revenues. If such New Wholesaler is appointed in place of us, we may cease to have any revenue attributable to the relevant LEGO products, and our operations and financial performance will be materially and adversely affected if we are not able to find replacement toys or infant products that will generate similar level of demands and revenues, with similar cost structure.

In addition, during the Track Record Period, the total number of our distributors generally increased from 694 as at 31 December 2015 to 805 as at 31 December 2016, and further to 878 as at 30 April 2017. Our sales of LEGO products through our distributors decreased, for various reasons, from HK$116.4 million for the four months ended 30 April 2016 to HK$109.4 million for the corresponding period in 2017. If New Wholesaler is introduced in the PRC, its business is likely to compete directly with our wholesale business, and the customers of such New Wholesaler may also compete with our self-operated retail channels as well as those of our wholesale channels. If our operating costs cannot be controlled and lowered at a level similar to the drop in such revenue arising from such circumstances, our operations and financial performance may be materially and adversely affected.

A majority of our revenue has been generated from sales under the LEGO brand and any negative performance of this brand could adversely affect our business

During the Track Record Period, we derived a significant portion of our revenue from sales under the LEGO brand. During the Track Record Period, the LEGO Group was our largest brand owner. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2016, purchases from the LEGO Group represented approximately 63.2%, 67.5% and 66.2% and 64.6%, respectively, of our total purchases. We started selling and distributing LEGO products in the PRC since 2001. Although we have launched more brands and products since 2001, we expect that a majority of our revenue will continue to be generated from sales under the LEGO brand in future periods. Negative publicity about the LEGO Group, or changes in market perception or customer preferences about the LEGO brand could materially and adversely affect the sales under the LEGO brand.

We may encounter competition from our wholesale customers and new business partners of the LEGO Group

To the best of our knowledge and belief after having made all reasonable enquiries, the LEGO Group supplies LEGO products directly to a few of our wholesale customers which have been key accounts of the LEGO Group. It is our understanding that these wholesale customers negotiate trading terms, merchandising and promotional activities for their purchases centrally with the LEGO Group. It is possible that these wholesale customers may sell the same LEGO products at a lower retail price than us or our distributors. We cannot rule out the possibility that they may compete with us in terms of product pricing and purchase costs going forward. So far as we are aware, such wholesale customers on-sell the LEGO products only to end-users in the PRC, and their current business models do not include engaging other wholesalers or retailers to distribute LEGO products in the PRC. However, we cannot rule out the possibility that these wholesale customers will be appointed by the LEGO Group to be distributors for the PRC market in the future.

So far as we are aware, up to the Latest Practicable Date, none of our wholesale customers (other than the aforementioned wholesale customers) have entered into any wholesale arrangement with the LEGO Group directly. After the 2016 LEGO Agreement became effective in 2016, there is no assurance that any such wholesale customers will not enter into distributorship agreements with the LEGO Group directly and become our competitors. If these wholesale customers source the LEGO products from the LEGO Group directly, they may on-sell such products to other customers or sell such products at their retail outlets at prices lower than our Group's. Under the distributorship agreements entered into by the LEGO Group with us, there are provisions regarding the "recommended retail prices" and relevant pricing structure for each channel. It is possible that there are no such provisions or pricing structure in the distributorship agreements made with any such new distributor(s), or these agreements may contain provisions which are more flexible. There is also no assurance that customers of such new distributors are required to follow pricing structure (if any) prescribed by the new distributor(s). If any of the wholesale customers which source directly from the LEGO Group compete with us in terms of product pricing and purchase costs, or if the LEGO Group enters into a wholesale arrangement with our wholesale customers (other than the aforementioned wholesale customers) or other business partners in 2017 or thereafter, our business, financial condition and operating results could be materially and adversely affected.

Our major brand owners may change their existing sales or marketing strategy by changing their business strategy, reducing their sales or production volume, changing their selling prices or appointing other distributors which may compete with us in the PRC

Our brand owners may change their existing sales or marketing strategy in respect of the products supplied to us by selling those products directly to our end-customers without going through our Group, changing their business strategy or reducing their sales or production volume. While we are granted exclusive distribution rights by most of our brand owners in the PRC, they may terminate the distribution rights by changing the terms of distributorship agreements. Consequently, there is no assurance that such major brand owners will not appoint other dealers or distributors which may compete with us. Furthermore, any significant increase in the selling prices of the products which we source from our major brand owners will increase our costs and may adversely affect our profit margin if we are not able to pass the increased costs on to our end-customers. Our overall gross profit margin amounted to approximately 48.7%, 50.2%, 49.9% and 49.2% for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively. The historically high gross profit margins may not be sustainable in the future.

There is no assurance that there will be no deterioration in our relationship with our brand owners which could affect our ability to secure sufficient supply of products for our business. In the event that any of our brand owners changes its sales or marketing strategy or otherwise appoint other dealers or distributors who may compete with us, our business, financial condition and operating results could be materially and adversely affected.

Distributorship agreements with our brand owners generally have a term of two years to five years

A majority of our distributorship agreements with our brand owners have a term of two years to five years and some of such agreements are automatically renewed upon expiration. As at 31 August 2017, there were seven distributorship agreements which expired or will expire on or before 31 December 2017. For FY2014, FY2015, FY2016 and the four months ended 30 April 2017, revenue attributable to the products distributed under these agreements amounted to approximately HK$1,014.9 million, HK$1,172.9 million, HK$1,215.7 million and HK$413.2 million, respectively, representing approximately 76.6%, 75.1%, 74.2% and 72.9% of our revenue for the corresponding periods. There is no assurance that we will be able to renew these agreements with our brand owners before their date of expiration or on a mutually acceptable terms or at all. If we are unable to continue our business relationship with these brand owners or if the terms or scope of the distributorship agreements made with them becomes less favourable to us, our business, financial condition and operating results could be materially and adversely affected.

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

We believe that our Kidsland and Babyland brands are well received by our end-customers and they have significantly contributed to the growth of our business. Such awareness contribute to higher recognition amongst our end-customers in the PRC and lower marketing costs. Maintaining and enhancing our Kidsland and Babyland brands is critical to expand and retain our base of end-customers. Our Kidsland and Babyland brands may be adversely affected if our corporate image or reputation is tarnished by negative publicity. Complaints or negative publicity about our products quality, delivery times, product returns procedures, customer or membership data handling and security practices, or customer support could have a significant negative impact on our reputation and on the popularity of our Kidsland and Babyland brands.

We cannot guarantee that negative reports about our business or our brands will not occur in the future and serious damage to our brands, 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 brands are no longer accepted by our end-customers, this could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive and fast changing market and increased competition may result in a loss of our market share in the PRC

We compete with a number of domestic and international market participants in the sale and distribution of toys and infant products in the PRC, and we expect competition in this industry to grow in the future. Some of our competitors, both existing and new, may have greater financial resources, better brand recognition and/or wider sale and distribution networks than us. To compete effectively, we must continue to invest significant resources in the on-going development of our own brands, Kidsland and Babyland, and the brands owned by our brand owners and the expansion of our brand portfolio. There can be no assurance that we will have sufficient resources to make these investments or that these investments will improve our market position as compared to our competitors. In addition, due to the increasing significance of the PRC market for multinational companies, we expect international competitors to increase their presence in the PRC. If we are unable to retain and attract our end-customers and compete effectively against our competitors for favourable terms in relation to the location of retail points, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to identify toy and infant product trends and consumer preferences in a timely manner

The life cycle of toys and infant products is getting shorter as consumer preferences change frequently. The success of our business is largely dependent on our ability to anticipate future toy and infant product trends and consumer preferences and to market products in a timely manner. Consumer preferences differ across and within different regions in the PRC and among different customer groups, and they are influenced by, among others, social media, economic circumstances and the demographic profile of the target customers. If we fail to accurately anticipate such trends and react to prevailing consumer preferences in a timely manner, it could result in lower sales volumes, lower selling prices, inventory build-up and lower profits, which may have a material adverse effect on our business, financial condition and results of operations.

E-commerce and online shopping have developed significantly in recent years in the PRC. We launched our first online flagship store on Tmall in 2011. As at the Latest Practicable Date, we had ten flagship stores on Tmall and two online stores on JD.com. Some of our competitors have also launched stores on online platforms, either operated by themselves or by third parties. Those of our competitors who are able to successfully sell their products online and effectively manage supply chains and logistics, web hosting infrastructure and after-sale service systems may be better positioned than we are to capture the opportunities presented by this market and consequently increase their customer base and sales. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel

Members of our management team have been responsible for the development of our Group and business and our management team has been one of the key drivers of our strategy implementation and achievements to date. The continued successful management of our business is, to a large extent, dependent on the services of our executive Directors and senior management. In particular, we rely on the expertise and experience of our executive Directors – Mr. Lee, Dr. Lo and Ms. Zhong, who play vital roles in our operation. If one or more of our management or other key employees are unable or unwilling to continue in their current positions, we may not be able to replace them promptly or at all, which may severely disrupt our business and affect our results of operations and future prospects.

Our future success is further dependent upon our ability to attract and retain personnel who have the necessary experience and expertise. Competition for qualified personnel in China is intense. If we cannot recruit and retain the employees necessary to maintain our operations, our capabilities may be limited, which could reduce our profitability and limit our ability to grow. In addition, the competition for qualified personnel in China may drive up our labour costs, in turn increasing our costs of operations and profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to continue to successfully expand our product offerings and brand portfolio

We constantly seek to diversify and expand our product offerings and brand portfolio through distributorship agreements with new brand owners or new product lines from our existing brand owners. However, whether we will be able to establish relationship with new brand owners is dependent upon a number of factors, including whether there will be suitable brand owners seeking distributors in the relevant markets, whether our distribution infrastructure and our corporate culture would be a good match with them, whether our competitors would be able to offer terms more favorable than ours. There is no assurance that we can enter into new distributorship agreements with the preferred brand owners.

Our expansion into new brands or product categories may not receive broad market acceptance. There is no assurance that we will be able to recover any investments we make in introducing these new brands or product categories. There is no assurance that we will be able to successfully integrate new brands or product categories into our existing product offerings and brand portfolio. We cannot assure you that any new brands or product categories we offer will gain market acceptance or that they will be able to generate a positive cash flow. In addition, the introduction of new brands and product categories may adversely affect the sales of our existing products, and we cannot assure you that we will maintain an optimised brand portfolio. If we are not able to manage our growth or execute our strategies effectively, we may not be successful in growing our business and our business and prospects may be materially and adversely affected.

An increase in the level of rental expenses will increase our selling and distribution expenses and may adversely affect our operations and profitability

We operate our retail shops on the retail spaces we lease from major shopping malls and we also use leased properties for our offices and distribution centres. Therefore, our business is to a certain extent affected by the fluctuation of our rents. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, rental expenses and building management fees related to our retail shops, offices and distribution centres amounted to approximately HK$84.8 million, HK$119.4 million, HK$137.6 million and HK$53.9 million, respectively, representing approximately 6.4%, 7.7%, 8.4% and 9.5%, respectively, of our revenue for the corresponding periods. In recent years, property prices and levels of rental expenses in the PRC have substantially increased and we expect they will continue to increase in the near future. The increase in the level of rental expenses may increase our selling and distribution expenses when we open new retail shop or when we renew the lease agreements relating to our existing retail shops.

The term of our lease agreements typically range from one year to five years. We cannot assure you that shopping malls will not increase the rental charged to us when we seek to renew our lease agreements or to request for better locations for our retail shops, or that we will be able to renew the lease agreements on the same terms or on terms that are more favourable to us or at all. Any material increase in the level of our rental expenses which we may not pass on to our end-customers may have a material adverse impact on our business, financial condition, results of operations and prospects.

Our consignment counters located within department stores and a renowned global toy store chain are subject to the terms of consignment agreements, and we may not be able to renew consignment agreements on the same or more favourable terms

As at 30 April 2017, 532 out of 754 of our retail points were in the form of consignment counters located within department stores and a renowned global toy store chain. Revenue from sales through consignment counters accounted for approximately 35.8%, 35.9%, 32.9% and 36.1% of our revenue for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively. We enter into consignment agreements with department stores and a renowned global toy store chain pursuant to which the department stores and the toy store chain receive a consignment fee, which is typically a monthly consignment fees, calculated as certain percentages of the gross sale proceeds of the relevant consignment counters or are fixed as mutually agreed, whichever is higher. The term of our consignment agreements is a generally one year. A department store may require an increase in the consignment fees charged to us in response to our request to renew the consignment agreement or allocate a prime position within the department store to us, or may assign us to a less desirable area of the department store when we seek to renew our agreements with them. Department stores and the toy store chain may experience increases in rental expenses or other expenses, which they may seek to pass on to us by increasing consignment fees. Some of our consignment agreements provide for a right for the department stores to terminate the consignment agreements if our consignment counters fail to meet the monthly sales targets for a few consecutive months or for failing to meet certain targets. We cannot guarantee that we will be able to renew our consignment agreements on the same terms or on terms that are more favourable to us, in a timely manner or at all, or that certain of our consignment agreements will not be terminated. If any of these situations happens, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may compete with retail shops operated or to be operated by our distributors

Some of our distributors operate retail stores in cities in the PRC where our retail points are located. As at 30 April 2017, our distributors operated a total of over 2,700 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. As our products are diverse, we have not adopted stringent measures to avoid competing with retail shops operated by our distributors. As such, we may not be able to manage the growth of retail network of our distributors. If our distributors expand their sales network aggressively, we may not be successful in growing our business and our business and prospects may be materially and adversely affected.

If we are not able to identify and secure suitable locations for new retail points on commercially acceptable terms, our expansion and growth prospects may be adversely affected

Our performance and expansion plans depend, to a significant extent, on the location of our new retail points. We generally seek to locate our retail points within well-known department stores and major shopping malls with visibility and customer traffic to increase exposure for our Kidsland and Babyland brands, access high volumes of our target end-users and leverage on the marketing campaigns and promotional activities of the department stores and shopping malls. The supply of prime locations for new retail points is scarce, and the competition to secure these locations is intense. We cannot assure you that we will be able to identify and secure prime locations in the future, particularly as we compete with other market participants who may have greater market recognition and financial resources than we do. Any failure to identify and lease suitable locations for our new retail points may have a material adverse effect on our business and expansion plans.

Any unauthorised use of our proprietary brands 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 brands and trademarks in our Kidsland and Babyland brands as critical to our success. We have developed Kidsland and Babyland into strong and well-recognised brands since 2006. We believe that many of our end-customers approach us for our toys and infant products because of our reputation and strong brand image. Our continuing success and growth of our products therefore depend on our ability to protect and promote our brands and trademarks and other intellectual property rights.

As at the Latest Practicable Date, we owned 45 and four registered trademarks in the PRC and Hong Kong, respectively as set out in the section headed "Statutory and General Information – B. Information about the Business – 2. Intellectual property rights of our Group" in Appendix IV 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. 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 our end-customers away from us, which could harm our reputation and materially and adversely affect our results of operation.

We generally rely on trademark laws to protect our intellectual property rights. However, the validity, enforceability and scope of protection of intellectual property could be uncertain. 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.

The sale of counterfeit products by third parties may harm our reputation and lead to reduced consumer confidence and loss of sales

We are susceptible to the sale of counterfeit products in similar designs or using similar trademarks or trade names by third parties. The sale of such counterfeit products, which are inferior in design and quality, may harm our reputation and brand image and/or those of our brand owners and may lead to reduced consumer confidence and loss of sales. During the Track Record Period, we were aware of large quantities of counterfeit products sold through online platforms, for example, Taobao. We discovered incidents of possible infringements and made reports of our findings to our brand owners in accordance with our distributorship agreements. We usually do not take our own legal proceedings against such infringement of trademarks or other intellectual property rights as it may be time consuming and costly and will divert the management's attention and other resources. In addition, costs arising from such legal proceedings may not be recovered fully or at all from the relevant parties. As a result, any such legal proceedings could have a material adverse effect on our business, financial condition and results of operations.

If we fail to retain our existing relationships with our wholesale customers or if we fail to establish relationships with additional wholesale customers, our results of operations may be negatively impacted

During the Track Record Period, over 30% of our revenue was generated from sales to our wholesale customers. We also engage hypermarket and supermarket chains and rely on online key accounts to sell our products to end-users. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had 573, 694, 805 and 878 distributors, respectively. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had wholesale arrangements with seven, eight, 12 and 12 hypermarket and supermarket chains, respectively. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had 11, 11, 14 and 15 online key accounts, respectively. If our relationship with these wholesale customers deteriorates, or if they are otherwise unable or unwilling to conduct business with us, our business, financial condition, results of operations and cash flows may be negatively impacted.

We rely on Independent Third Party distributors over whom we have limited control

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from distributors amounted to approximately HK$406.1 million, HK$528.0 million, HK$514.2 million and HK$151.7 million respectively, representing approximately 30.7%, 33.8%, 31.4% and 26.8%, respectively, of our revenue for the corresponding periods. The performance of our distributors and the ability of our distributors to on-sell our products and expand their businesses and their sales network are crucial to the future growth of our business and may affect our sales volume and profitability. We have limited control over daily business activities of our distributors as they are generally Independent Third Parties. Non-compliance by any of our distributors with our distributorship agreements or parallel imports of products which we are the sole or exclusive distributor in the PRC may harm our brand reputation and image and disrupt our sales, resulting in a failure to meet sales targets (or minimum purchase targets imposed) by our brand owners. Further, our distributors may engage in activities that violate applicable PRC laws and regulations, such as China's anti-corruption laws, in connection with the sales or marketing of our products. If our distributors violate PRC laws or otherwise engage in unlawful practices, we could be liable for damages or fines, which could negatively affect our financial condition and results of operations.

Due to our dependence on distributors for the sale and distribution of our products, any (i) reduction, delay or cancellation of orders from our distributors, (ii) sale of our competitors' products by our distributors, (iii) failure to renew distributorship agreements or maintain good relationships with existing distributors, and (iv) imports of parallel products by our distributors, may cause material fluctuations or declines in our revenue and have a material and adverse effect on our financial condition and results of operations.

We regularly evaluate our distributors and engage distributors in line with our business strategies. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, we did not renew distributorship agreement with a total of 144, 156, 179 and 38 distributors, respectively. During the same periods, we entered into distributorship agreements with 248, 277, 290 and 111 distributors, respectively. In addition, we may not be able to successfully manage our distributors. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products or limit our growth, and therefore materially harm our financial condition and results of operations.

We may be exposed to product liability claims and any serious product liability claims against us may adversely affect our reputation and business

Under the applicable PRC law, we may be liable for product defects or quality issues despite the fact that the products distributed by us are manufactured by, save for Dongguan Silverlit, Independent Third Parties and are required to comply with the safety and quality standards prescribed under the China Compulsory Certification (CCC) (中國強制性認證) administered by CNCA. We believe that the risk of potential product liability claims against us may increase when the concept of product liability begins to develop among consumers in the PRC. We only have limited control over the quality of the products which we distribute, and there can be no assurance that there will not be a successful product liability claim against us. We may be able to receive indemnification or compensation from the brand owners, but there can be no assurance that such indemnification or compensation can fully protect us from any losses or damages. We may incur significant costs and expenses and be required to devote substantial financial and managerial resources to defend against product liability claims or reach settlements, and we may be fined or sanctioned, which could materially and adversely affect our reputation and business.

We are exposed to credit risks of our wholesale customers and department store groups

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2014, 2015 and 2016 and 30 April 2017, about 17%, 14%, 26% and 24%, respectively, of our total trade receivables were due from our five largest debtors (all being our wholesale customers and department store groups) and about 4%, 6%, 8% and 11%, respectively, of our total trade receivables were due from our largest debtor (being a department store group).

We cannot assure you that our wholesale customers and the department stores will pay us on time and that they will be able to fulfill their payment obligations. Should we experience any unexpected delay or difficulty in collections from our wholesale customers and the department stores, our operating results and financial condition may be adversely affected. Further, we may be exposed to further credit risks from new wholesale customers and department stores and from providing credit to our existing wholesale customers and department stores. As a result, we cannot assure you that the risk of default by these wholesale customers and department stores will not occur in the future.

Our insurance policies may be insufficient to cover potential losses arising as a result of business interruption, damage to our property or third-party liabilities

We maintain insurance covering third-party liabilities in order to protect against losses and damages of third parties at our retail shops and distribution centres. We also maintain all risks insurance for our retail shops and distribution centres in order to protect us against losses and damages as a result of theft, rubbery and fire. We do not maintain insurance for all of our assets or against losses at all of our properties. There can be no assurance that our insurance policies will be sufficient to cover all losses or liabilities. If our insurance policies are insufficient to cover our losses or liabilities, this may have a material adverse effect on our business, financial condition and results of operations.

Some of our lease agreements have not been filed with the relevant PRC authorities and we might be subject to administrative fines

As at the Latest Practicable Date, we had not completed the administrative filings of the lease agreements relating to 244 properties we leased. As at the Latest Practicable Date, we had completed lease registration for 10 lease agreements. According to applicable PRC administrative regulations, the lessor and the lessee of a lease agreement are required to file the lease agreement with relevant governmental authorities within 30 days after the execution of the lease agreement. If the filing is not made, the governmental authorities may require that the filing be made within a stated period of time, failing which, they may impose a fine ranging from RMB1,000 to RMB10,000 for each agreement that has not been properly filed. It is not clear under PRC law if the fine will be borne by the lessor or lessee.

According to applicable PRC administrative regulations, lessors of the related leases need to provide us with certain documents (such as their business licences or identification information) in order to complete the administrative filing. There can be no assurance that the lessors of our leased properties will be cooperative in the process of completing the filing. If we fail to complete the administrative filings within a period required by the relevant governmental authorities and relevant authorities determine that we shall be liable for failing to complete the administrative filings of all the relevant lease agreements, we might be subject to fines.

Some of our lessors have not provided property ownership certificates and we may be required to cease occupation and use of such leased properties

As at the Latest Practicable Date, we leased 254 properties for retail shops, office and distribution centres in the PRC. As at the Latest Practicable Date,

- lessors of 134 leased properties had provided the property ownership certificate with respective to their properties to us; and

- lessors of 120 leased properties had not provided sufficient evidence of their rights to lease the properties to us.

Accordingly, the ownership rights of the lessors or the rights to lease the properties to us under the relevant lease agreements cannot be ascertained. There is no assurance that the lessors have obtained the property ownership certificates. The lack of information as to the ownership rights of these leased properties may expose the Group to the risk of being forced to be evicted from these properties. We may not be able to secure alternative premises with similar terms and conditions in the neighbourhood and be required to cease occupying and using the leased properties. In the event that we are unable to find replacement premises with similar terms and conditions in a timely manner, this may have a material adverse effect on our business financial condition and results of operations.

We may be subject to fines imposed by relevant governmental authorities due to our failure to comply with relevant regulations relating to social insurance and housing provident fund

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations Concerning Housing Fund Administration (《住房公積金管理條例》), we are required to make contributions to the social insurance fund and the housing provident fund under the relevant PRC laws for our employees. For details relating to these relevant laws, please refer to the section headed "Regulatory Overview – the PRC – Labour and social security" in this prospectus.

As advised by our PRC Legal Advisers, during the Track Record Period, we did not contribute to the social insurance fund and housing provident fund for the benefit of our employees for the full amount based on their actual salaries as required under the relevant PRC laws and regulations. As at 31 December 2014, 2015 and 2016 and the four months ended 30 April 2017, the carrying amount of our aggregate provision of social insurance fund and housing provident fund contributions amounted to approximately HK$29.3 million, HK$38.9 million, HK$41.0 million and HK$42.6 million, respectively. As at the Latest Practicable Date, we had not received any order or notice from the local authorities nor any claims or complaints from our current and former employees regarding our non-compliance in this regard. For details, please refer to the section headed "Business – Non-compliance incidents – Non-compliance in relation to social insurance fund and housing provident fund contributions" in this prospectus. We cannot assure you that we will not be subject to any order to rectify non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding social insurance payment or housing provident fund contributions against us, or that we will not receive any claims in respect of social insurance payment or housing provident fund contributions under the PRC laws and regulation. In addition, we may incur additional costs to comply with such laws and regulations by the PRC government or relevant local authorities. Any such development could materially and adversely affect our business, financial condition and results of operations.

We recorded negative operating cash flow for FY2015 and the four months ended 30 April 2017

We recorded negative operating cash flow of approximately HK$17.8 million in FY2015. This is primarily due to the cash inflow of approximately HK$159.7 million from operating activities before the decrease in working capital of approximately HK$147.3 million and cash payment for PRC and HK income tax paid of approximately HK$30.2 million. Our net cash inflow before movement in working capital of approximately HK$159.7 million was primarily attributable to our profit before income tax of HK$133.5 million, and was adjusted by non-cash items, such as allowance/(reversal of allowance) for inventories, allowance/(reversal of allowance) for doubtful debt, depreciation of property, plant and equipment, interest income, net gain or loss on disposal of property, plant and equipment and net unrealised exchange gain or loss, totalling approximately HK$26.2 million. We also recorded negative operating cash flow of approximately HK$59.0 million for the four months ended 30 April 2017. This was primarily due to the cash inflow of approximately HK$50.1 million from operating activities before the decrease in working capital of approximately HK$85.9 million and cash payment for PRC income tax paid of approximately HK$23.2 million. For reasons of the negative cash flow for FY2015 and the four months ended 30 April 2017, please refer to the section headed "Financial Information – Liquidity, Financial Resources and Capital Structure – Cash flow generated from/(used in) operating activities" in this prospectus.

Although we seek to manage our working capital, we cannot assure you that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. As a result, there could be a period during which we experience net cash outflow. Negative operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will be in default of our payment obligations and may not be able to expand our business operation as planned. As a result, our business, financial condition and results of operations may be adversely affected.

We may face risk regarding the recoverability of deferred tax assets

As at 31 December 2014, 2015 and 2016 and 30 April 2017, our Group's deferred tax assets were about HK$9.8 million, HK$12.2 million, HK$10.6 million and HK$10.2 million, respectively. While the deferred tax assets may enable our Group to reduce future tax payments, our deferred tax assets may also pose risk to our Group as its recoverability is dependent on the Group's ability to generate future taxable profit.

We cannot assure you that the deferred tax assets can be recovered. In the case that the value of deferred tax assets has changed, our Group may have to write-down the deferred tax assets, which may significantly affect our profit and loss and financial condition in that respective financial year.

The estimated listing expenses may adversely affect our financial results for the year ending 31 December 2017

Our financial results for the year ending 31 December 2017 will be affected by non-recurring expenses in relation to the Listing. Total amount of listing expenses that will be borne by us in connection with the Global Offering is estimated to be about HK$42.8 million (based on the mid-point of our indicative price range for the Global Offering), of which about HK$17.3 million is expected to be accounted for as a deduction from equity in accordance with the relevant accounting standard. The remaining HK$25.5 million listing expenses was or is expected to be charged to our profit or loss accounts, of which HK$8.5 million and HK$3.0 million were charged for FY2016 and the four months ended 30 April 2017, respectively, and about HK$14.0 million is expected to be charged upon Listing.

Whether or not the Listing eventually occurs, a significant portion of the listing expenses will have been incurred and recognised as expenses, which will reduce our profit for the year and therefore negatively affect our future financial performance. In addition, if the Listing were to be postponed due to market conditions, we would also need to incur additional listing expenses for our future listing plan, which would further negatively affect our future profit for the year. As a result, our business, financial performance, results of operations and prospect would be materially and adversely affected.

We may be subject to fines imposed by relevant governmental authorities due to our failure to comply with relevant regulations relating to withholding enterprise income tax in the PRC

Pursuant to the EIT Law, the Implementation Regulations of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) and Interim Measures on the Administration of Withholding at Source of Income Tax of Non-resident Enterprises (《非居民企業所得稅源泉扣繳管理暫行辦法》), we are required to withhold and pay the enterprise income tax within the time limits. For details relating to these relevant laws, please refer to the section headed "Regulatory Overview – the PRC – Taxation" in this prospectus.

Total withholding enterprise income tax payable by Beijing Haisile, Shanghai Haisile and Guangzhou Haisile on behalf of Kidsland Holdings (or to be withheld by these entities) for each of the three years ended 31 December 2015 was approximately HK$3.3 million, HK$3.7 million and HK$5.8 million, respectively, as required under the relevant PRC laws and regulations. We did not withhold nor pay the relevant taxes within the time limit for the three years ended 31 December 2015. Subsequently, we paid the withholding enterprise income tax in accordance with the notice of tax assessment issued by the respective tax authorities in Beijing, Shanghai and Guangzhou in April and May 2017. As at the Latest Practicable Date, (i) we had not been subject to any records of outstanding tax, tax omission or other material non-compliance with laws and regulations; (ii) we had not been subject to any investigations by the PRC tax authorities and (iii) there had been no dispute between and the PRC tax authorities and us. For details, please refer to the section headed "Business – Non-compliance incidents – Non-compliance in relation to the withholding enterprise income tax" in this prospectus. We cannot assure you that there are no, or will not be any, investigation by the PRC tax authorities regarding late payment of withholding enterprise income tax against us, or that we will not receive any claims in respect of late payment of withholding enterprise income tax under the PRC laws and regulation. In addition, we may incur additional costs to comply with such laws and regulations by the PRC government or relevant local authorities. Any such development could materially and adversely affect our business, financial condition and results of operations.

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 laws, rules and regulations, delays in obtaining the necessary licences and approvals from the government.

In the future, we may decide to enter into new regions or markets or selectively pursue strategic acquisitions or investments in new markets. We may have limited or no experience operating in new regions or markets that have cultures and customs, legal and regulatory frameworks, competitive landscapes and customer preferences different from our existing markets. We may not be familiar with the local business and regulatory environment of the new markets and as such, we may fail to comply with the new regulatory requirements or attract a sufficient number of customers to achieve profitability.

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 comply with the new regulatory requirements of new regions or markets secure sufficient amount of sales order or at all after the expansion, our business and results of operation may be adversely affected.

Our sales and results of operations are subject to seasonality

Our sales and results of operations are subject to seasonality. In general, we record higher sales volume and revenue when approaching holiday seasons, for instance, Children's Day, Chinese New Year, Christmas and New Year. In recent years, we also recorded higher revenue growth for our online stores on the Singles' Day in the PRC. We typically carry out more promotion campaigns and marketing activities in the second half of the year to capture additional sales opportunities presented by various public holidays at that time of the year. For this reason, we usually increase our inventory level to satisfy the demand from our customers at the end of a financial year and around those holiday seasons. If we fail to capture the sales opportunities arising from these public holidays, our business, financial condition and results of operation may be adversely affected.

Our business operations may be affected by risks related to logistics support provided by Independent Third Party logistics service providers

We rely on Independent Third Party logistics service providers for logistics support at various stages leading up to the sale of our products, mainly comprising transportation of products from the ports to our distribution centres and from the distribution centres to our various retail points. Delivery disruptions of logistics service providers may occur for various reasons beyond our control, including transportation bottlenecks, labour strikes or adverse weather conditions, and could lead to delayed or lost deliveries. In addition, we may suffer losses or damages of products as a result of theft or poor handling by logistics service providers. Underperformance of the logistics service providers could result in our inability to meet customer demands and expectations and have a material adverse effect on our reputation, business, financial condition and results of operations.

We are subject to certain risks relating to the warehousing of the products we sell

Before delivery of products to our retail points or delivery points designated by our wholesale customers, we store them in our distribution centres. We maintain insurance to cover financial losses we may sustain as a result of accidents, including fires, in our distribution centres. However, if such accidents, including fires, were to occur, causing damage to the products we sell or our distribution centres, our ability to supply products to our retail points and wholesale customers on time could be adversely affected, causing our market reputation, financial condition, results or operations or business to be materially and adversely affected. The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures and delay our delivery of products. Delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of end-customers. If any one or more of the above risks were to materialise, our financial condition and results of operations may be adversely affected.

We have a high level of inventories and any material change in demand for our products may have a direct impact on our financial condition and results of operations

As we operate over 200 retail shops and over 500 consignment counters, we need to maintain sufficient inventories to support the sales growth resulting from the expansion of our retail network. The nature of our business requires us to have stocks of products for display to satisfy demand from end-users at our retail points. Therefore, we have relatively a high level of inventories in comparison with competitors who rely on wholesale distribution or franchise models. As at 31 December 2014, 2015 and 2016 and 30 April 2017, our inventories amounted to approximately HK$356.8 million, HK$441.9 million, and HK$506.1 million and HK$482.7 million, respectively, representing approximately 47.1%, 53.0%, 52.3% and 53.5%, respectively, of our total assets as at each of those dates. Our inventories significantly increased during the Track Record Period primarily due to the increase in the number of retail points and the number of brands of products that we sell and distribute.

An increase in inventories, without comparable sales, increases the pressure on our cash flow. In addition, ageing of our inventories requires us to increase provisions for our inventories, which may adversely affect our results of operations. Our provisions for inventories were approximately HK$5.7 million in FY2014, HK$4.7 million in FY2015 and HK$4.6 million in the four months ended 30 April 2017 and reversal of approximately HK$3.2 million in FY2016. This was largely attributable to an increase in our inventories as we opened more retail points as well as the ageing of our inventories. As we expect to open more retail points in the future, our financial condition and results of operation will continue to be affected by high levels of inventories.

In addition, we remain vulnerable to the frequently changing trends and consumer preferences associated with toys and infant products. Any unexpected change in demand for our products may result in our having out-of-stock or over-stocked items, which will have a direct impact on our sales and pricing plans. Increased inventories may adversely affect our pricing strategies, increase write-downs and write-offs and result in strains on our cash flow, and consequently our business, financial condition and results of operations may be materially and adversely affected.

The application of HKFRS 16 may affect our financial condition and results of operations due to our operating lease commitments

We are a lessee of retail shops, consignment counters, offices and distribution centres under which the relevant leases are classified as operating leases. Our current accounting policy for such leases is set out in Note 3 to the Accountants' Report in Appendix I to the prospectus. As at 30 April 2017, our total non-cancellable operating lease commitments amounted to approximately HK$187.4 million, of which HK$153.8 million had an original lease term of over one year.

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

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

The new standard is not expected to apply until 2019, which will include the adjustment of prior years. For details, please refer to Note 3 to the Accountants' Report in Appendix I to this prospectus.

The information technology systems maintained by us and our information technology service provider may be subject to human error, unauthorised access and disruptive events and our customer/membership data may be vulnerable to cyber-attack

Our business largely relies on the secured and efficient operation of our information technology systems. We gather, transit, store and use customer/member data through the internet and our information technology systems. Such systems may be damaged or interrupted by human error, natural hazards or disasters and unauthorised access such as cyber-attack, causing temporary suspension of our business and complaint or litigation from relevant customers/members. In addition, our businesses depend on the reliability of information technology systems maintained by our information technology service provider to operate efficiently and reliably at all times. Certain emergencies or contingencies could occur, such as a natural disaster or a significant power outage, which could temporarily shut down its information technology systems. For details about our information technology service provider, please refer to the section headed "Business – Information Technology Systems" in this prospectus. While we have adopted various measures to mitigate relevant risks associated with cyber-attacks, there is no assurance that our measures can always effectively protect us from damages. The occurrence of any above mentioned incidence, or any security breach caused by unauthorized accesses to our information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could materially and adversely affect our business, financial condition and results of operations.

We depend on the proper performance of our information technology systems and any serious interruption of these systems could materially affect our operations

Our enterprise resources planning (ERP) systems, which primarily consist of the ERP system, Warehouse Management System (WMS), IPOS system and other modules, are critical to our day-to-day operations. These systems consolidate and provide critical operational data, particularly those relating to our sales and inventory movements, from each of our retail points to our headquarters for subsequent analysis. We are also in the process of upgrading our systems in order to better coordinate and allocate orders from our sales channels and retail points. Our systems are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events. Although we have back-up systems in place, any disruption to our systems or failure of our back-up systems, and in particular a prolonged period of disruption, will affect the rate at which base operational data is synchronised with our central integrated system. Any delay may cause a strain on our procurement, inventory control, logistics, sales and overall finance controlling processes. Increasing business complexity of our operations due to our expansion plans may place additional requirements on our systems. Any serious interruption or breakdown of our systems may have a material adverse effect on 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. We cannot guarantee that we will be able to maintain our historical rates of growth in revenue and net profit, 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.

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

China's real GDP growth in 2012 slowed to 7.7% and further to 6.7% in 2016, which was the fifth consecutive year that recorded a slowdown in real GDP growth. On the other hand, GDP per capita increased at a CAGR of approximately 8.2% during the period between 2011 and 2016. Under this circumstance, parents have become more willing to spend more money to purchase toys and infant products for their children. As our toys and infant products are sensitive to general and local economic conditions, the demand of our end-customers may be affected by any adverse changes in economic conditions (such as economic slowdown). Any slowdown in the economy in general could reduce our end-customers' demand for the toys and infant products we sell and it may have material adverse impact on our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects

During the Track Record Period, most of our assets were located in China, and most of our revenue was derived from our business in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, affected by economic, political and legal developments in China.

The PRC economy differs from the economies of developed countries in many respects, including, among others, the degree of government involvement, investment control, level of economic development, growth rate, foreign exchange controls and resource allocation. Since 1978, PRC Government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. A substantial portion of productive assets in China, however, is still owned by the PRC Government. The PRC Government also exercises significant control over the economic growth of the PRC through means such as allocating resources, controlling payments of foreign-currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC Government has implemented measures emphasising the utilisation of market forces, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may materially and adversely affect us. China has experienced rapid economic growth over the past few decades; however, its continued growth has faced downward pressure since the second half of 2008 and its annual GDP growth rate has declined from 9.5% in 2011 to 6.7% in 2016, according to the National Bureau of Statistics of China (中華人民共和國國家統計局). There is no assurance that the future growth will be sustained at similar rates or at all. Our business, financial position, results of operations and prospects may be materially and adversely affected by PRC Government's economic, political and social policies, including those to our industry.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us and limit the legal protection available to you

Our business and operations are primarily conducted in China and are governed by PRC laws and regulations. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have limited weight as precedents. The PRC legal system continues to evolve rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. Moreover, we cannot predict the effect of future developments in the PRC legal system. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations. Further, 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 any violation of these policies and rules until after such violation has occurred. Furthermore, the legal protections available to us and our investors under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

We face risks related to health epidemics, contagious diseases and other outbreaks

Our business could be materially and adversely affected by the outbreaks of contagious diseases such as SARS, H5N1 avian influenza, human swine flu or another epidemic or outbreak. An outbreak of contagious diseases, and other adverse public health developments in China could result in a widespread health crisis and restrict the business activities in affected areas, which may, in turn, materially and adversely affect on our business operations. In such an event, our operations would be severely disrupted and our financial condition and results of operations will be materially and adversely affected. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian influenza, SARS, human swine flu or any other epidemic.

More stringent restrictions on the remittance of Renminbi into and out of the PRC and governmental control over currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment

The Renminbi is not currently a freely convertible currency, as the PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and in certain cases, the remittance of currency out of China. We receive all of our payments from customers in Renminbi and will need to convert Renminbi into foreign currencies for the payment of dividends, if any, to holders of our Shares, and to fund our business activities outside China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under China's existing foreign exchange regulations, payment of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi 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 take measures at its discretion from time to time to restrict access to foreign currencies for current account transactions. Since 2015, in response to China's declining foreign currency reserves, the PRC Government has placed increasingly stringent restrictions on the convertibility of the Renminbi into foreign currencies. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China. Any existing and future restrictions on currency exchange may limit our ability to purchase goods outside of China or otherwise fund any future business activities that are conducted in foreign currencies, such as the U.S. dollar.

Fluctuations in exchange rates of the Renminbi could result in foreign currency exchange losses

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in China's and international political and economic conditions, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policies goals. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, the net exchange loss arising from the fluctuations in the foreign exchange rates amounted to approximately HK$8.1 million, HK$7.4 million, HK$0.9 million and HK$2.2 million, respectively.

There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a significant appreciation of Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currencies.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Any of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax

We are a company incorporated under the laws of Cayman Islands. Pursuant to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its global income. "De facto management bodies" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009 and July 2011, SAT issued several circulars to clarify certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the "de facto management body" for foreign enterprises that are not controlled by PRC enterprises. Therefore, it remains unclear how PRC tax authorities will treat a case like ours. If we are regarded as a PRC resident enterprise by the PRC tax authorities, we would have to pay PRC enterprise income tax at a rate of 25% for our entire global income, which may materially and adversely affect our profit and hence our retained profit available for distribution to our Shareholders.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws

Under the EIT Law and its implementation regulations, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are "non-resident enterprises", which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realised on the transfer of shares by such is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China.

Under PRC Individual Income Tax law and its implementation regulations, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described under the paragraph headed "We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax" in this section, dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. However, shareholders who are not PRC tax residents and assess they are eligible for preferential tax rates under relevant tax treaties may submitting prescribed forms and supporting documents when conducting tax filing and enjoy the tax treaty benefits, subject to tax authorities' subsequent review and administration, in accordance with the Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (國家税務總局關於發佈<非居民納税人享受税收協定待遇管理辦法>的公告), which was issued on 27 August 2015. With respect to dividends, the "beneficial owner" tests under the Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties (關於如何理解和認定税收協定中"受益所有人"的通知) (the "**Circular 601**") will also apply. If determined to be ineligible for the foregoing tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of your investment in our Shares may be materially and adversely affected.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our operating subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require that dividends be paid only out of the profit for the year calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. The PRC laws and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate

Under the EIT Law and its implementation rules, if a foreign entity is deemed to be a "non-resident enterprise" as defined under the EIT Law, a withholding tax at the rate of 10% will be applicable to any dividends payable to the foreign entity unless otherwise reduced or exempted by relevant tax treaties or similar arrangements. According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (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), dividends paid by a PRC foreign-invested enterprise to its shareholder(s) incorporated in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interests in the PRC foreign-invested enterprises. The SAT promulgated the Circular 601 on 27 October 2009, which addresses the methods to determine the "beneficial owners" under the treaty articles on dividends, interest and royalties. According to the Circular 601, the PRC tax authorities must evaluate whether an applicant qualifies as a "beneficial owner" on a case-by-case basis based on the "substance over form" principle.

It is possible, based on the abovementioned principles, that the PRC tax authorities would not consider our Hong Kong subsidiary as the "beneficial owner" of any dividends paid from our PRC subsidiaries and would deny the claim for the reduced rate of withholding tax. Under the current PRC tax law, this would result in dividends from our PRC subsidiaries to our Hong Kong subsidiary being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

You may experience difficulty in effecting service of legal process, enforcing foreign judgements or bringing original actions in China or Hong Kong based on foreign laws against us, and some of our Directors and senior management

We are incorporated in the Cayman Islands. Substantially all of our assets, and a significant portion of the assets of some of our Directors are located in China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgements made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"), pursuant to which a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in China. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgement in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgement rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in China in order to seek recognition and enforcement of foreign judgements in China.

The heightened scrutiny over acquisitions from the PRC tax authorities may has an adverse impact on our business, acquisitions or restructuring strategies

On 3 February 2015, the SAT promulgated Circular No. 7, which provides comprehensive guidelines relating to, and heightened the PRC tax authorities' scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise. For details, please refer to the section headed "Regulatory Overview – the PRC – Taxation – Enterprise Income Tax" in this prospectus. There is uncertainty as to the application of the Circular no. 7. The Circular No. 7 may be determined by the tax authorities to be applicable to our offshore restructuring transactions or sale of the shares of our offshore subsidiaries, where non-resident enterprises being transferors were involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the Circular No. 7 or to establish that we and our non-resident enterprises should not be taxed under the Circular No. 7 for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident Shareholders to personal liability, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position

According to Circular No. 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to the SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the "**SPVs**") with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

We may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC nationals, and may not always be able to compel our beneficiaries to comply with the requirements of the Circular No. 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC nationals will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the Circular No. 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions and penalties on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

The PRC regulations of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds of the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds of the Global Offering, are subject to PRC regulations and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries must be approved by, or registered with, MOFCOM or its local branches. We cannot assure you that we will be able to obtain these approvals or registrations on a timely basis, or at all. If we fail to obtain such approvals or registrations, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected. This may materially and adversely affect our PRC subsidiaries' liquidity, their ability to fund their working capital and expansion projects, and their ability to meet their obligations and commitments. As a result, this may have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN HONG KONG

The state of economy in Hong Kong may deteriorate

Some of our profit for the year is derived from Hong Kong. As an open economy, Hong Kong's domestic economy is also affected by many other factors such as economic, social, legal and political developments in the PRC, fluctuations in global interest rates, and changes in local and international economic and political situations. In the event that there is a downturn in the economy of Hong Kong, our Group's results of operations and financial position may be severely affected.

The state of political environment in Hong Kong may be unstable

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of "one country, two systems" according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the "one country, two systems" principle and the level of autonomy as currently in place at the moment. In 2014, there were also political movements which adversely affected certain business sectors in Hong Kong. Any change of such political arrangements may pose immediate threat on the stability of the economy in Hong Kong, thereby directly and negatively affecting our results of operations and financial positions.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of our Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of our Shares will not decline following the Global Offering.

Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the Global Offering to vary significantly from the Offer Price:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;

- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in China and Hong Kong and in the global economy;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

Moreover, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. It is possible that our Shares may be subject to changes in price not directly related to our performance and as a result, investors in our Shares may suffer substantial losses.

There will be a time gap of several business days between pricing and trading of our Shares. Holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, profit for the year and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other distributors of toys or infant products could cause the market price of our Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, which could occur between the time of sale and the time trading begins.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline

Although our Controlling Shareholders are subject to restrictions on their sales of Shares within 12 months from the Listing Date as described in the section headed "Underwriting" in this prospectus, future sales of a significant number of our Shares by our Controlling Shareholders in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through offerings of our Shares. We cannot assure you that our Controlling Shareholders will not dispose of Shares held by them or that we will not issue Shares pursuant to the general mandate to issue shares granted to our Directors as described in the section headed "Statutory and General Information" in Appendix IV to this prospectus or otherwise, upon the expiration of restrictions set out above. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of Shares for sale by our Controlling Shareholders, or the issuance of Shares by our Company may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

We may need additional capital, and the sale or issue of additional Shares or other equity securities, including pursuant to the Pre-IPO Share Option Scheme, could result in additional dilution to our Shareholders

Notwithstanding our current cash and cash equivalents and the net proceeds from the Global Offering, we may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing investments in and/or acquisitions of new businesses from third parties, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing through selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our Shareholders. Furthermore, Shareholders' interest in our Company may experience further dilution to the extent that our Shares are issued upon the exercise of options granted under the Pre-IPO Share Option Scheme. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of distributors of toys or infant products;

- conditions in Hong Kong and other capital markets in which we may seek to raise funds;

- our future results of operations, financial condition and cash flows;

- PRC governmental regulation of foreign investment in China;

- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or reduce our growth to a level that can be supported by our cash flow, or defer planned expenditures.

As the Offer Price of our Shares is higher than our consolidated net tangible book value per Share, purchasers of our Shares in the Global Offering may experience immediate dilution upon such purchases

As the Offer Price of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interest if any Shares are issued upon exercise of any options granted under the Pre-IPO Share Option Scheme, or if we issue additional Shares in the future to raise additional capital.

We cannot assure you whether and when we will declare and pay dividends in the future

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. Under applicable laws and the constitutional documents of our operating subsidiaries, the payment of dividends may be subject to certain limitations. The calculation of certain of our operating subsidiaries' profit under applicable accounting standards differs in certain respects from the calculation under HKFRS. As a result, our operating subsidiaries may not be able to pay a dividend in a given year even if they have profit as determined under HKFRSs. Accordingly, since our Company derives all of our earnings and cash flows from dividends paid to us by our operating subsidiaries, we may not have sufficient distributable profit to pay dividends to our Shareholders. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law and will be at the absolute discretion of our Board. Our shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. For details, please refer to the section headed "Financial Information – Dividend" in this prospectus.

Certain statistics contained in this prospectus are derived from a third-party report and publicly available official sources and they may not be reliable

Certain statistics contained in this prospectus relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party report for the purpose of disclosure in this prospectus, however, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

Investors should read the entire prospectus carefully and should not consider any particular statements in this Prospectus or in published media reports without carefully considering the risks and other information contained in this Prospectus

Prior to the publication of this prospectus, there has been coverage in the media regarding us and Global Offering, which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

JOINT COMPANY SECRETARIES

According to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite knowledge and experience to discharge the functions of the company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a certified public accountant as defined in the Professional Accountants Ordinance, or (ii) an individual who, by virtue of his/her relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

We have appointed Ms. Li Shan Mui and Ms. Wong Yuk Ki as our joint company secretaries. Ms. Li Shan Mui is a member of Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants and meets the requirements under Rules 3.28 and 8.17 of the Listing Rules. Since Ms. Wong Yuk Ki does not possess a qualification stipulated in Rules 3.28 and 8.17 of the Listing Rules, she is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Ms. Wong Yuk Ki as our joint company secretary. In order to provide support to Ms. Wong Yuk Ki, we have appointed Ms. Li Shan Mui to act as a joint company secretary and to provide assistance to Ms. Wong Yuk Ki, for a three-year period from the Listing Date so as to enable her to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge her duties. The waiver is valid for an initial period of three years from the Listing Date and will be revoked immediately when Ms. Li Shan Mui ceases to provide assistance to Ms. Wong Yuk Ki during the three-year period.

Upon the expiry of such three-year period, we will assess the then experience of Ms. Wong Yuk Ki in order to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied at that time and, if such requirements cannot be satisfied, we will employ a suitable candidate who will be able to comply with the requirements under Rules 3.28 and 8.17 of the Listing Rules as the secretary of our Company. Further information on the qualifications and experience of Ms. Wong Yuk Ki and Ms. Li Shan Mui is disclosed in the section headed "Directors and Senior Management" in this prospectus.

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue to carry on after the Listing certain continuing connected transactions which will constitute continuing connected transactions under the Listing Rules upon the Listing.

We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the reporting, annual review and announcement requirements in respect of certain continuing connected transactions as disclosed in paragraphs 2 and 3 of the section headed "Connected Transactions". Further information is disclosed in the section headed "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with COWUMPO, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information about our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have 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 must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters, any of our or their respective directors, affiliates, advisors, agents or representatives or any person, or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

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 related Application Forms contain 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 Underwriters, and the International Offering is expected to be fully underwritten by the International Underwriters. The Global Offering is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The Global Offering is managed by the Sole Global Coordinator. If, for any reasons, the Offer Price is not agreed upon among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distributions of this prospectus in any jurisdiction, other than in Hong Kong. Accordingly, and without limitation to the following, 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 sale 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 and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of 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 issued pursuant to the exercise of the Over-allotment Option) and Shares to be issued under the Capitalisation Issue and any Shares which may be issued upon exercise of options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Post-IPO Share Option Scheme. Save as disclosed in this prospectus, no part of the share or loan capital 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 proposed to be sought in the near future.

The Shares will be traded in board lots of 2,000 Shares. The stock code of the Shares is 2122.

REGISTERS AND HONG KONG STAMP DUTY

All Offer Shares subscribed for pursuant to applications made in the Hong Kong Public Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dealings in Offer Shares registered in the branch register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

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 taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of Offer Shares.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for 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 sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares – 4. Terms and conditions of an application" in this prospectus.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at an exchange rate of HK$1.00 = RMB0.857 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain monetary amounts included in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the 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 the Shares on the Stock Exchange or on any other date HKSCC chooses. 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.

Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the shares to be admitted into CCASS.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Lee Ching Yiu (李澄曜)	Flat A, 42nd Floor The Altitude 20 Shan Kwong Road Happy Valley Hong Kong	Chinese
Dr. Lo Wing Yan William (盧永仁)	Flat 81, 18th Floor Tower 14, Parkview Heights Hong Kong Parkview No. 88 Tai Tam Reservoir Road Wong Nai Chung Gap Hong Kong	Chinese
Ms. Zhong Mei (仲梅)	Room 401, Unit 2, Tower 3 No. 6 Guangze Road Chaoyang District Beijing PRC	Chinese
Non-executive Directors		
Mr. Du Ping (杜平)	No. 202, Gate 1, Building No. 3 No. 5 Yard Sanlihe No. 1 Community Xicheng District Beijing PRC	Chinese
Ms. Duan Lanchun (段蘭春)	Room 3001 Kerry Center No. 1155 Fangdian Road Pudong District 20120X Shanghai PRC	Chinese

Independent Non-executive Directors

Mr. Cheng Yuk Wo (鄭毓和)	3C, Grand View Terrace 59 Nga Tsin Wai Road Kowloon City Kowloon Hong Kong	Chinese
Dr. Lam Lee G. (林家禮)	33A, Block 1 Estoril Court 55 Garden Road Central Hong Kong	Canadian
Mr. Huang Lester Garson (黃嘉純)	Flat B, 14th Floor Cypress Court World-Wide Gardens No. 2 Lung Pak Street Shatin New Territories Hong Kong	Chinese

Please refer to the section headed "Directors and Senior Management" in this prospectus for further information on our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**Haitong International Capital Limited** 8/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong *(Licenced under the SFO and permitted to carry out Type 6 (advising in corporate finance) regulated activities (as defined under the SFO))*
Sole Global Coordinator Sole Bookrunner and Sole Lead Manager	**Haitong International Securities Company Limited** 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Co-lead Managers	**Get Nice Securities Limited** 10th Floor, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong **Sinomax Securities Limited** Room 2705-06, 27/F Tower One, Lippo Centre 89 Queensway Hong Kong
Legal Advisers to our Company	*As to Hong Kong law:* **Sidley Austin** 39/F, Two International Finance Centre No. 8 Finance Street, Central Hong Kong *As to PRC law:* **Guantao & Chow** *Solicitors & Notaries* Suites 1604-06, 16/F ICBC Tower, 3 Garden Road Central, Hong Kong

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal Advisers to the Sole Sponsor and the Underwriters

As to Hong Kong law:

Chiu & Partners
40th Floor
Jardine House
1 Connaught Place
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Beijing
PRC

Joint reporting accountants

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

CHENG & CHENG LIMITED
Certified Public Accountants
10/F Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

Receiving bank

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

Industry consultant	**Euromonitor International Limited** Unit 01-08, 11/F Cross Tower No. 318 Fuzhou Road Shanghai PRC
Compliance advisor	**Haitong International Capital Limited** 8/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-111 Cayman Islands
Headquarters and principal place of business in the PRC	Room 06-07, 26th Floor, Block B Peng Run Building 26 Xiao Yun Road Chao Yang District Beijing PRC
Principal place of business in Hong Kong	28/F, Times Tower 391-407 Jaffe Road Hong Kong
Company's website	**http://www.kidslandholdings.com/** *(Information contained in this website does not form part of this prospectus)*
Joint Company Secretaries	Ms. Wong Yuk Ki *FCPA (Australia), CB* Room 1204 18 Austin Ave Kowloon Hong Kong Ms. Li Shan Mui *HKICPA, FCCA, CTA* Flat A, 18th Floor Wiseman Building 11-17 Fort Street North Point Hong Kong

Authorised representatives	Ms. Wong Yuk Ki Room 1204 18 Austin Ave Kowloon Hong Kong Dr. Lo Wing Yan William Flat 81, 18th Floor Tower 14, Parkview Heights Hong Kong Parkview No. 88 Tai Tam Reservoir Road Wong Nai Chung Gap Hong Kong
Audit committee	Mr. Cheng Yuk Wo *(Chairman)* Dr. Lam Lee G. Mr. Huang Lester Garson
Remuneration committee	Mr. Huang Lester Garson *(Chairman)* Mr. Cheng Yuk Wo Dr. Lo Wing Yan William
Nomination committee	Dr. Lam Lee G. *(Chairman)* Mr. Cheng Yuk Wo Mr. Huang Lester Garson
Principal share registrar	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	**Tricor Investor Services Limited** Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	**OCBC Wing Hang Bank Limited** 161 Queen's Road Central Hong Kong

The information that appears in this section is extracted from a commissioned report, Euromonitor Report prepared by Euromonitor International Limited ("Euromonitor") and derived from various governmental, official or publicly available documents, the Internet or other sources and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. The Euromonitor Report is commissioned by our Group. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our 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 in any material aspect or that any material fact has been omitted that would render such information false or misleading in any material aspect. The information prepared by Euromonitor and set out in this section has not been independently verified by our Group, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager or any other parties involved in the Global Offering and no representation is given as to the accuracy and completeness of such information. Accordingly, you should not rely on such information in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We have commissioned Euromonitor, an independent market research company, to analyse and report on, among others, the toys and infant products industries in the PRC and Hong Kong. We paid a fee of RMB400,000 for the preparation and use of the Euromonitor Report. To provide an analysis of the aforementioned markets, Euromonitor combined the following data and intelligence gathering methodology: (a) conducting secondary research to assess the relevant background information as is publicly available through various sources such as authority statistics, reports and databases; (b) conducting company research to gather corporate information from sources like websites, annual reports and financial reports published by the companies; and (c) conducting qualitative based trade interviews with multiple organisations to augment the estimate of the market size, growth trend and competitive landscape. The information and statistics as set forth in this section have been extracted from the Euromonitor Report.

Euromonitor is one of the world's leading independent providers of strategic market research. As independent market research expert, Euromonitor provides unbiased historical trends and forecasts of various categories for consumers. Euromonitor's extensive network of in-country analysts in over 80 countries facilitates the obtaining of in-depth information as required in today's international business environment. Global industry specialist teams of Euromonitor ensure the international consistency of their research. Our Directors confirm that Euromonitor, including all of its subsidiaries, divisions and units, are independent of and not connected with us (within the meaning of the Listing Rules) in any way, other than being commissioned by our Company to prepare the Euromonitor Report. Euromonitor has given its consent for us to quote from the Euromonitor Report and to use information contained in the Euromonitor Report in this prospectus. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Industry Report, various official government publications and other publications.

FORECASTING BASIS AND ASSUMPTIONS

The Euromonitor Report is prepared by Euromonitor under the following assumptions: (i) the Chinese and/or Hong Kong economy is expected to maintain steady growth over the forecast period; (ii) the Chinese and/or Hong Kong's social, economic, and political environment is expected to remain stable in the forecast period; (iii) there will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of toy retailing market in China and Hong Kong during the forecast period; and (iv) key market drivers such as accelerating urbanisation rate, increasing disposable income, nationwide two-child policy, products and services upgrade are expected to boost the development of toy retailing market in China and Hong Kong.

RELIABILITY OF INFORMATION IN THE EUROMONITOR REPORT

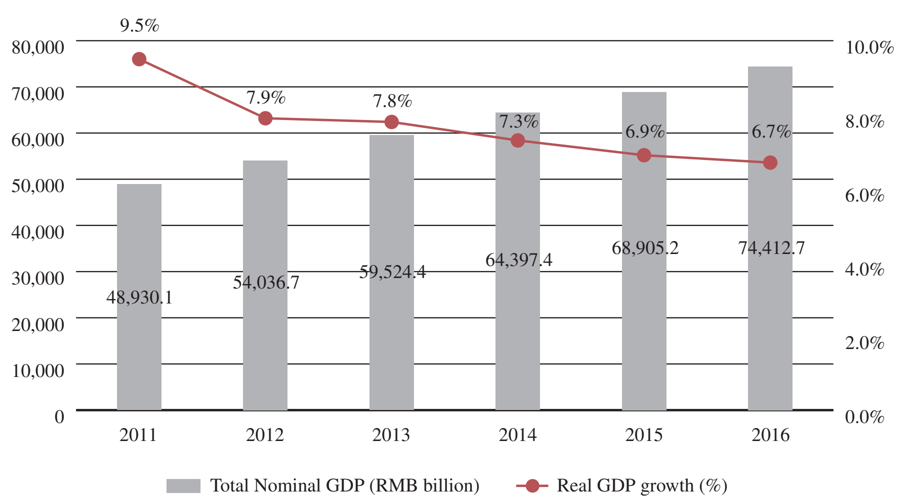
Our Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Euromonitor Report. Our Directors believe the Euromonitor Report is reliable and not misleading as Euromonitor is an independent professional research agency with extensive experience in their profession.

MACRO-ECONOMIC ENVIRONMENT IN CHINA

China's economic growth is slowing down to ensure stability and reduce economic risks

Since 2011 and the Eurozone debt crisis, the Chinese government has implemented a series of initiatives to shield the country from the negative effects of the financial crisis, which have included reducing the dependency on exports and boosting domestic consumption through massive investment projects. Given the relatively strong fiscal position of the Chinese government, China has managed to transform its growth model and drive domestic consumption by means of promoting urbanisation, despite the global economic downturn. Under such circumstances, China's real GDP growth in 2012 slowed to 7.9% and further to 6.7% in 2016, which was the fifth consecutive year that recorded a slowdown in real GDP growth. On the other hand, the total nominal GDP increased steadily from RMB48 trillion in 2011 to RMB74 trillion in 2016. In addition, GDP per capita increased from RMB36,403 in 2011 to RMB53,980 in 2016, realising a CAGR of approximately 8.2% during such period.

GDP and Real GDP growth in China, 2011-2016



Source: National Statistics Bureau of China

A more relaxed population planning policy to help resolve the low birth rate

The Chinese government announced the end of the one-child policy in 2013 and began to fully implement the two-child policy under the 13th Five-Year Plan in 2016. Under the new policy, over 12 million couples are allowed to have two children. The relaxed policy is expected to diversify the country's ageing and resolve the pending labour deficit. The percentage of those aged 0-14 accounted for around 16.4%-16.5% of total population from 2011 to 2015. As the one-child policy had been in effect for 40 years, it is believed that even though the population control has been relaxed, many Chinese couples will choose to have only one child given the economic and social pressures, and it will take time and more effort from the government, such as subsidies and indoctrination, to encourage young couples to have another baby.

The slight increase in the percentage of those aged 0-14 in China is indicative of the increase in number of consumers in toy retailing in China. The relaxed population policy and the increase in the population of those aged 0-14, together with the effects of improved living standard and rising income, are expected to elevate the toy retailing market.

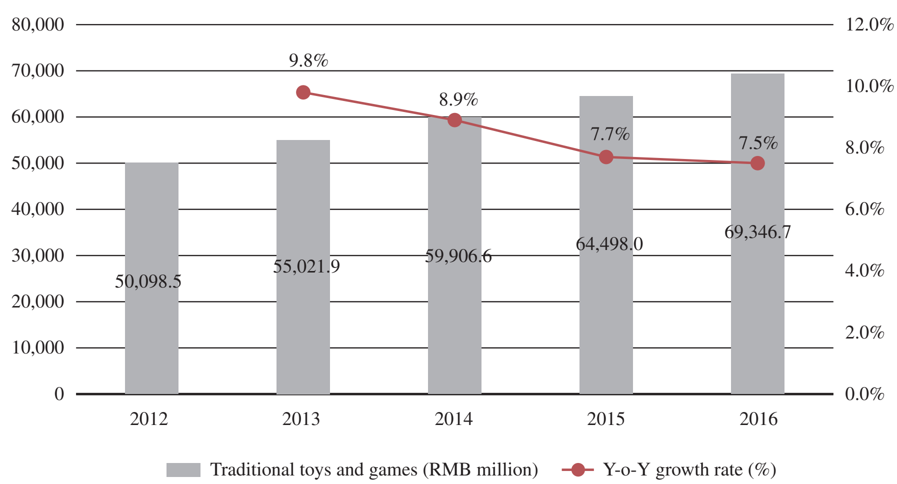
MARKET OVERVIEW OF TOY RETAILING IN CHINA

The one-child policy in the past played an important role in the fast development of the toy retail industry in China, as parents are willing to spend more on their children. Even though the current market growth rate has slowed due to the global economic downturn, the outlook for the toy retailing market in China is optimistic considering the higher disposable income per capita, more Chinese customers being willing to trade up to more expensive toys, and the relaxed population control policy, which means more potential end-users in the market. Within traditional toys and games which include electronic toys, construction toys have posted the strongest performance in recent years as parents view them as a tool for developing children's creativity and concentration.

The total market size for traditional toys and games retailing in China had increased from RMB50,098.5 million in 2012 to RMB69,346.7 million in 2016, seeing a CAGR of 8.5% for the period 2012-2016. The total market size in China has also accounted for a higher portion of the world's total traditional toys and games retailing value from 9.7% in 2012 to approximately 12.4% in 2016.

Among the traditional toys and games, the total market size for construction toys increased from RMB2,810.7 million in 2012 to RMB6,871.6 million in 2016, which accounted for a CAGR of approximately 25.0% during the period. According to the National Statistics Bureau, per capita spending on traditional toys and games increased from RMB37.0 in 2012 to RMB46.9 in 2015. Meanwhile, the per capita expenditure on construction toys increased from RMB2.1 in 2012 to RMB3.9 in 2015. The increase in both per capita expenditure on traditional toys and games as well as construction toys indicate the growing consumer demand on toys and games.

Market size for traditional toys and games retailing in mainland China, 2012-2016



Source: Euromonitor Report

MARKET DRIVERS AND CONSTRAINTS FOR TOY RETAILING IN CHINA

Market drivers

The relaxation of the two-child policy provides more opportunities for toys and games industry

The Chinese government announced the end of the one-child policy in 2013 and began to fully implement the two-child policy under the 13th Five-Year Plan in 2016. With more new babies born in the coming years, the need for toys and games is expected to consequently grow, which will drive the market growth for the overall toys and games industry in China.

The emergence of internet retailing with more foreign brands introduced into China enhances the growth of toys and games in China

Due to the rapid development of the online retailing platform, Chinese consumers are increasingly more accustomed to shopping on online retailing platforms such as Tmall, JD.com, Amazon, etc in addition to their shopping habits of visiting traditional retail channels such as department stores and independent small groceries. The comparatively appealing retail price and convenience without geographic boundaries on the online retailing platform wins more consumers' trust. Additionally, some foreign toy and game brands have established their own online flagship stores to educate Chinese consumers and bring a new consumer experience, which leaves more growth space for the toys and games market in China.

Market constraints

Increase in operational costs places pressure on toy and game retailers

Per the National Statistics Bureau, the average wage for employees working in the urban enterprises increased from an annual RMB41,799 in 2011 to RMB62,029 in 2015, seeing a CAGR of 10.4%. In addition to the rise in labour cost, the prices for space rental in major department stores and shopping malls have also been climbing in recent years. In short, the increasing operational costs place great pressure on toy and game retailers, and some small to medium-size retailers may not be able to survive when facing financial problems.

Entry barriers

China Compulsory Certification is not easy to obtain for toy manufacturers, hence limiting selection for toy retailers to broaden the product varieties

"***China Compulsory Certification***" (CCC) is required for products that are intended for the Chinese market, and applied to a broad spectrum of product groups such as automotive parts, IT products, cables, technical devices, and toys. Products cannot be legally imported, traded, used, or sold in China before they obtain the CCC. For toys deemed suitable for ages below 14 years old, it is very likely that CCC will be required, regardless of the place of manufacture.

To obtain CCC, a product may need to undergo a series of product testing corresponding to GB standards, the Chinese National Standard, and the GB standards will prescribe the scope for product testing and the overall process that would need to be completed before the CCC can be issued. It is not easy for new entrants to obtain CCC, especially for toy manufacturers, and thus limits the selection for toy retailers to extend product varieties.

Reputable brand owner is selective on local partner

Generally, reputable international brand owner is selective of the local distributors they partner with. Key criteria include distributing network, reputation, integrity of management of the local distributors, and other commercial terms including annual purchase commitment and advertising commitment. As a result, it'll be difficult for local distributors with less financial resources or experience to compete with larger and more experienced distributors in securing the distribution contract.

Reputable international brand owners normally hold short-term partnerships with distributors, with common contract period on a yearly basis, in order to minimise the risk of non-performance by the local distributor of their sale on expansion commitment.

DISTRIBUTION CHANNELS

Consumers' habits have been rapidly changing over the years. E-commerce is gaining popularity among Chinese consumers. Thus, in recent years many retailers and brand owners have started developing their e-commerce platform instead of through a local distributor, for example, Mattel with Fisher Price, Barbie and Hotwheel have set up their platforms on Tmall.com. However, traditional distribution channels through a physical premises such as hypermarkets, supermarkets, department stores and toy and game stores still dominate the toys retailing, which jointly accounted for over 60% market share throughout 2012-2016. Traditional toy and game stores, such as Kidsland stores, particularly had recorded the fastest growth among traditional distribution channels gained increasing share from 2012 to 2016, which indicated the market potential for this specific retail channel type. Although the share of traditional department stores recorded slight reduction in recent years, offline store-based retailing still obtains the dominant share overall. With the fast social development, the emergency of shopping mall wins certain group of consumers. Shopping mall usually provides one-stop shopping environment, including shopping, dining and entertainment. Leading toy brands/toy stores attach greater importance to shopping malls to generate revenue.

Toy retail sales value split by distribution channels in mainland China, 2012-2016

% Share of retail sales value	2012	2013	2014	2015	2016
Hypermarkets and supermarkets	28.3%	27.5%	25.7%	23.1%	22.3%
Department stores	26.5%	25.4%	25.4%	24.5%	23.1%
Traditional toy and game stores	11.9%	12.8%	13.8%	15.3%	15.4%
Internet retailing	7.3%	11.0%	14.9%	17.8%	20.9%
Others (collectively)[Note]	26.0%	23.3%	20.2%	19.3%	18.3%

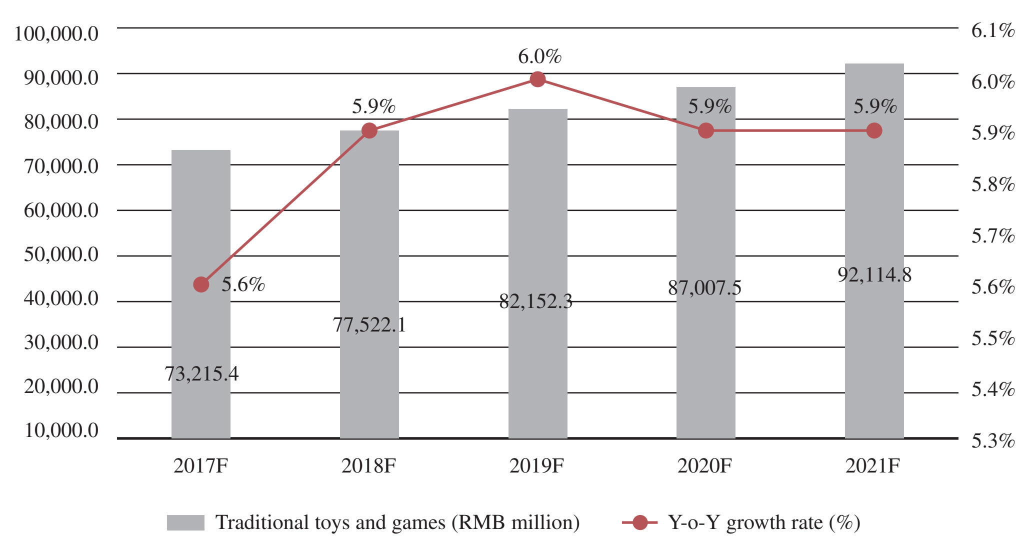
Note: Others include traditional grocery retailers and leisure and personal goods specialist.

Source: *Euromonitor Report*

MARKET OUTLOOK

The sale of traditional toys and games is expected to reach RMB92,114.8 million by 2021, seeing a CAGR of 5.9% for the forecast period (2017-2021). The demand for traditional toys and games will remain strong, especially for the construction toys as they encourage children to establish playing experiences both psychologically and physically, which means Chinese parents are willing to purchase these products to develop their children's creativity and concentration. Despite the global economic slowdown, the outlook for the toy retailing industry in China is expected to see ongoing growth due to the increasing disposable income, progress in urbanisation, and the more relaxed population control fully implemented in 2016 which enables more couples to have two children, leading to an increase in the pool of end-users in the toy retailing market in China. In the meantime, the market size for construction toys will expect to reach RMB15,758.5 million by the end of 2021, with a CAGR of 16.9% over the forecast period (2017-2021).

Market size for traditional toy and game retailing in China, 2017-2021



Source: *Euromonitor Passport Toys and Games, 2016 edition*

COMPETITIVE LANDSCAPE OF TOY RETAILERS IN CHINA

Currently, the toy retailing market in China is highly fragmented, with many small to medium-sized retailers. The five leading toy retailers collectively accounted for about 33% of market share in 2016, with our Group topping the ranking list, which accounted for approximately 14% of the market share. The rest of four competitors jointly accounted for 19% market share in 2016. The LEGO Group is a world renowned manufacturer of construction toys for people of different ages, and our sales of LEGO products (in terms of final retail sales value) in the PRC accounted for a significant portion of the total retail sales (in terms of final retail sales value) of LEGO products in the PRC in 2016.

As one of the leading toy retailers in China, our Group has more than 600 retail stores (including counters in the department stores) in the country. In comparison, Competitor A had about 130 shops located in 55 cities in China. Our Group proactively partners with globally well-known toy and game brands. Developing multi-brand strategy enables our Company to attract a wider customer base and diversify sources of revenue. With the emergence of internet retailing, the Group has also set up official online stores on mainstream internet retailers such as Tmall, JD and Amazon to further reach a broader consumer base regardless of geographic boundaries. Per the group, it possesses effective supply and retail management through its extensive distribution network, which helps it to stand out from its competitors.

Leading toy retailers in mainland China, in terms of retail sales value, historical 2016

Ranking	Name of toy retailer	Market share *(%)*
1	Kidsland	14%
2	Player A	11%
3	Player B	6%
4	Player C	1%
5	Player D	1%

Source: Euromonitor Report

MARKET OVERVIEW OF INFANT AND CHILDREN PRODUCTS IN CHINA

Infant and children's products mainly include baby car seats, strollers, baby and children's apparel, baby feeding accessories, etc. Before the end of the one-child policy, most Chinese families had only one child. Hence, family members usually devoted themselves and gave all their attention to the only child in the family, buying them the most valuable and high quality products to meet the child's every need, including apparel, car seats, strollers, feeding accessories, etc.

In most Chinese cities and provinces, baby specialist stores accounted for the majority share of retail sales of baby and children's products, benefiting from extensive outlet distribution, wide product availability and the good purchase experience provided by professional sales advisors. Currently, internet retailing is getting more popular due to the convenience of online purchasing as well as cheaper product prices. Many cross-border e-commerce platforms are particularly popular for selling baby and children's products.

With the increasing market competition, some traditional toy retailers also sell infant and children's products as supplementary to their main business. The benefit of combining sales of toys with infant and children's products provides parents a one-stop shopping environment, where they can purchase both toys and infant related products. In terms of various types of infant and children's products retailers in China, the market can be regarded as comparatively fragmented.

Over the period of 2011 to 2016, it was also found that the China market welcomed an increasing number of foreign branded baby and children's products. When Chinese consumers are provided with more product information, they are willing to spend more on foreign branded baby and children's products to ensure the product safety and well-being.

EXPERIENCE CENTRE IN CHINA

According to the National Statistics Bureau, the birth rate in China has increased from 11.93‰ in 2011 to 12.07‰ in 2015. In addition, the Chinese government announced the end of the one-child policy in 2013 and began to fully implement the two-child policy under the 13th Five-Year Plan in 2016. Under the new policy, over 12 million couples are allowed to have two children. The relaxed policy is expected to diversify the country's ageing and resolve the pending labour deficit. The percentage of those aged 0-14 accounted for around 16.4%-16.5% of total population from 2011 to 2015. Alongside the increasing disposable income and beneficial population policy, more young parents contribute more efforts to early childhood education and most Chinese parents tend to cultivate their kids from early ages.

Experience center is an emerging trend of combining toys retailing, entertaining and education. The most typical experience center is LEGO. It builds on the concept of educational entertainment but parents can further purchase LEGO toys in the experience center. Such new business model brings greater opportunity for traditional toy retailers to broaden their service offerings as well as establishing long-term consumer loyalty of parents and children. In addition to international brands, it is also noticed that several domestic experience centers are joining the competition, such as Xingqiba Town (星期八小鎮), Qiaohu Kids (巧虎體驗中心) and etc.

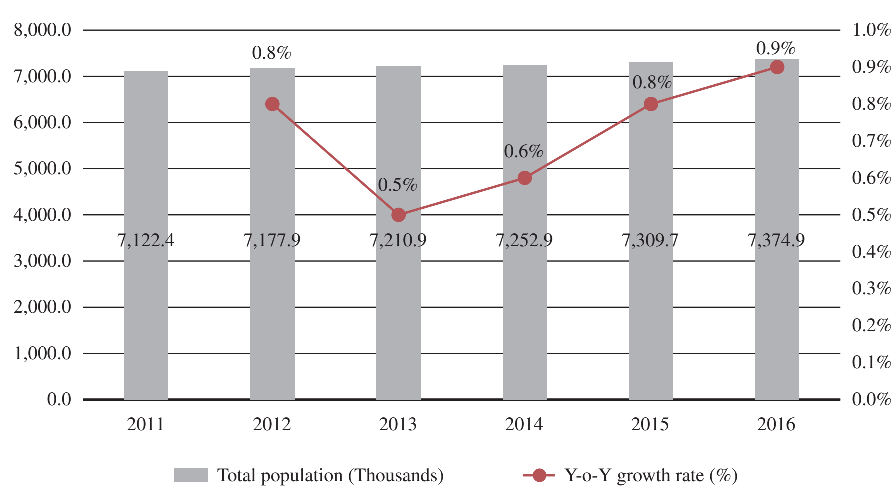
In short, the market of experience center see growth potential in China, with increasing demand from new babies and more diversified types of services to ensure the health development.

MACRO-ECONOMIC ENVIRONMENT IN HONG KONG

Hong Kong experiences low birth rate over the past decade

Hong Kong's population has stagnated over the past decade, barely growing by a CAGR of only 0.7% (2011-2016) to reach a population of 7.4 million people by 2016. The overall birth rate in Hong Kong remains low, as urban residents continue to delay starting their own families as they pursue career progression and educational goals.

Total population in Hong Kong, 2011-2016

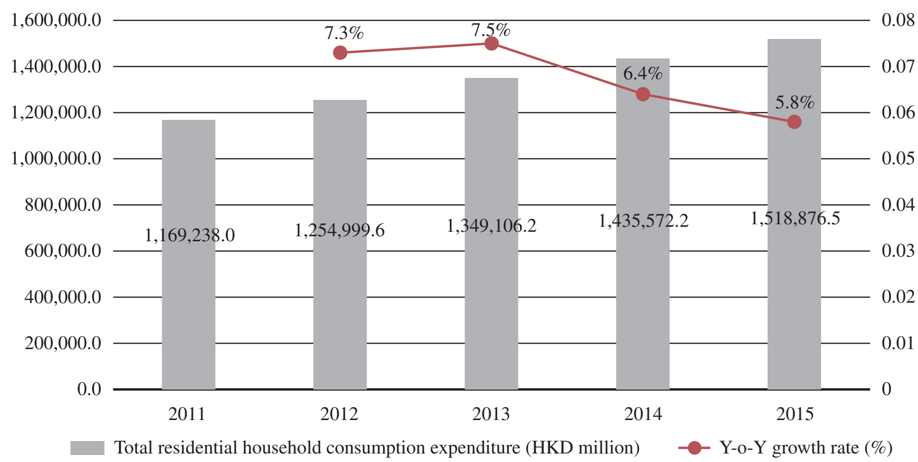


Source: The Census and Statistics Department of Hong Kong

Total consumption expenditure sees stable growth in Hong Kong

Hong Kong's total consumption expenditure by residential households reached HK$1,518.8 billion in 2015, increased from HK$1,169.2 billion in 2011, with a CAGR of approximately 6.8% during such period. The stable consumption expenditure ensures a healthy retailing environment in Hong Kong.

Total consumption expenditure by residential households in Hong Kong, 2011-2015



Source: The Census and Statistics Bureau and UN

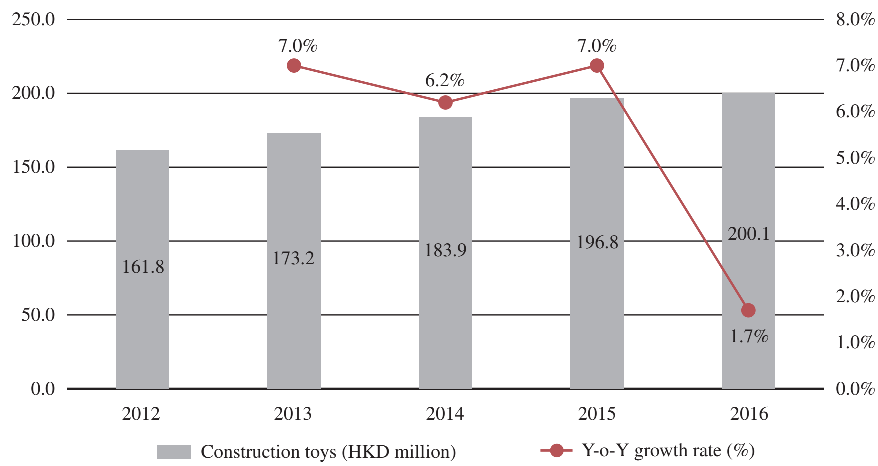
MARKET OVERVIEW OF TOY RETAILING IN HONG KONG

Retail sales of traditional toys and games have grown steadily by a CAGR of 3.7% over the period of 2011 through 2016 to reach HK$2.3 billion, as Hong Kong consumers continue to exhibit a strong willingness to spend on indulging their children. Action figures and accessories enjoyed the highest market value share followed by dress-up and role-play toys, and model vehicle toys. Construction toys were the fourth highest in retail value sales.

Traditional toys and games continue to face increasing competition and pressure from video games, especially those on mobile phone platforms. The current generation of Hong Kong youngsters and children has been introduced to video games and digital content on mobile platforms from an increasingly young age, making traditional toys and games less attractive to them.

Hong Kong's predominantly Chinese-based consumers place a strong emphasis on education as a key aspect of their children's development, and are also increasingly embracing the importance of learning through play. This has incentivised them to look for products which can enhance their children's development and education, including toys. This has benefited construction toys such as interlocking bricks like LEGO products, as well as puzzles and construction sets, all of which are commonly perceived to improve hand-eye coordination, patience, creativity and spatial skills in children who play with such toys. Thus, growth in construction toys has outpaced the overall industry, growing by a CAGR of 5.5% over the period of 2012-2016.

Market size for construction toys retailing in Hong Kong, 2012-2016



Source: Euromonitor Report

MARKET DRIVERS AND CONSTRAINTS FOR TOY RETAILING IN HONG KONG

Market drivers

Sophisticated toys incorporating new technology generating new demand

Traditional toys and games are being offered in more sophisticated and advanced designs today, as well as offering integration with mobile phone apps or networking with other similar devices. These design and technological trends which were originally seen in toys targeted at adult consumers are now filtering down to children's toys as well. More advanced construction toy sets incorporating robotic elements, wireless technology and remote control are a new hit with parents and children alike, with snap-together parts and servos that can be transformed into a robot that children can then programme and control via an Android or iOS app.

Increasing number of licenced toys ensures a stable development of the construction toys market in Hong Kong

In recent years, the popularity of some well-known animation movies have been widespread across the Hong Kong region. Many toy and game manufacturers have seized the opportunity to distribute and sell licenced toys and games to generate further revenue. Per trade sources, construction toys such as LEGO rebound their business with the strategy of selling more licenced toys, which has further expanded the original consumer target and boosted demand for LEGO and other construction toys.

Market constraints

Persistently low birth rate a potential constraint on demand growth

The total fertility rate in Hong Kong has remained persistently low over the past decade, with population barely growing at a CAGR of only 0.7% over the 2011 through 2016 review period. At best, this implies that the potential consumer base for traditional toys and games in Hong Kong is unlikely to expand significantly over the forecast period. This in turn will lead to fewer opportunities for growth and expansion for traditional toys and games in Hong Kong.

DISTRIBUTION CHANNELS

Retail sales of traditional toys and games in Hong Kong remains concentrated in traditional toy and game stores, which have consistently accounted for more than 60% of total value sales since 2012. This is not likely to change over the near future, as such specialist retailers tend to offer the widest variety and range of traditional toys and games under one roof, including product models which are typically not offered by more general retailers.

Internet retailing of traditional toys and games accounted for 3.2% of retail value sales in 2012, and this has slowly grown to 3.8% as of 2016. While internet retailing has taken off in a big way in retail markets overall, Hong Kong consumers tend to prefer on-site retail purchases for traditional toys and games, as evidenced by the slow penetration of internet retailing in this market.

This is largely because toys are essentially impulse purchases, driven by physical sensory stimuli such as touch and sounds. Hence, on-site retail sales are expected to continue dominating retail sales of traditional toys and games going forward.

Traditional toys and games retail sales value split by distribution channels in Hong Kong, 2012-2016

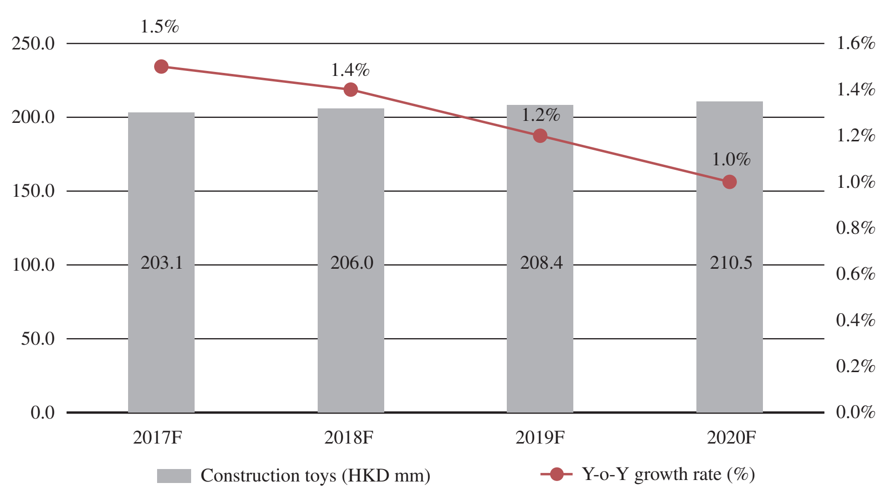
% Share of retail sales value			**Time series**		
	2012	**2013**	**2014**	**2015**	**2016**
Department stores	30.0%	29.5%	29.0%	29.0%	28.9%
Traditional toy and game stores	61.6%	62.0%	62.3%	62.5%	62.6%
Internet retailing	3.2%	3.3%	3.6%	3.7%	3.8%
Others (collectively)	5.2%	5.2%	5.1%	4.8%	4.7%

Source: Euromonitor Report

MARKET OUTLOOK

The total market size for construction toys in Hong Kong will increase from HK$203.1 million in 2017 to HK$210.5 million in 2020, experiencing a stable CAGR of approximately 1.2% for the forecast period.

Market size for construction toys retailing in Hong Kong, 2017-2020



Source: Euromonitor Report

This section sets forth summaries of the most significant laws and regulations applicable to our operations and business in the PRC and Hong Kong.

THE PRC

Consumer Protection

The PRC Law on Protection of Consumers' Rights and Interests (中華人民共和國消費者權益保護法) (the "**Consumer Protection Law**") was promulgated by the National People's Congress Standing Committee (全國人民代表大會常務委員會) on 31 October 1993 and took effect on 1 January 1994, and was amended in 2009 and 2013 respectively. The Consumer Protection Law sets out the obligations of business operators and rights and interests of consumers in the PRC. Pursuant to the Consumer Protection Law, business operators shall, amongst others, have the following obligations:

- ensuring that goods and services provided to consumers satisfy the requirements for personal and property safety;
- as to goods and services that may cause harm to personal or property safety, giving consumers truthful explanations and explicit warnings, and indicating correct ways of usage and methods of preventing damage;
- providing invoices or other vouchers for goods or services supplied to consumers in accordance with regulations or business practices or upon consumers' request;
- guaranteeing the quality, function, usage and term of validity of goods or services under normal use, and that actual quality of goods or services conforms to that demonstrated in advertising, product descriptions or other manners;
- properly performing repair, replacement, refunding and other responsibilities in accordance with regulations or agreement with consumers;
- not imposing unfair or unreasonable terms on consumers or reduce or escape their civil liability for their infringement of the legitimate rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices and the like.

Failure to comply with the Consumer Protection Law may result in civil liabilities, administrative penalties including fines, confiscation of illegal revenues and revocation of business licence, and even criminal liabilities in severe circumstances.

Product Liability and Quality Control

The PRC Law on Product Quality (中華人民共和國產品質量法) (the "**Product Quality Law**") was promulgated by the Standing Committee of the National People's Congress on 22 February 1993 and took effect on 1 September 1994 and was subsequently amended in 2000 and 2009. The law applies to all production and sale activities in the PRC. Pursuant to the law, products offered for sale must satisfy relevant quality and safety standards and sellers of goods shall, amongst others, have the following obligations:

- establishing and practicing a check-for-acceptance system for replenishment of stock, and examining quality certificates and other marks;
- adopting measures to keep the products for sale in good quality;
- ensuring that labels of the products for sale includes quality inspection certificates, products and manufacturer information in Chinese, and proper warnings; and
- meeting other applicable requirements.

Violation of the Product Quality Law may result in civil liabilities, administrative penalties including fines, confiscation of illegal revenues and revocation of business licence, and even criminal liabilities in severe circumstances. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. If the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

Compulsory Product Certification

China has established a compulsory products certification system on the basis of the Product Quality Law, the Law on Import and Export Commodity Inspection (《進出口商品檢驗法》) and Standardisation Law (《標準化法》). Under the system, the products concerning health, safety, environment and security are required to go through the compulsory certification and obtain the China Compulsory Certification or "CCC" mark. Only after completing the certification, the products can be imported into China and sold on the Chinese market. The certification process involves products testing by designated agencies on the basis of technical specifications of compulsory national standards.

The General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) ("**AQSIQ**") is responsible for supervising and administering products quality and certification. The authority issued the Administrative Measures on Compulsory Product Certification (《強制性產品認證管理規定》), which took effect on 1 September 2009. According to these measures, the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) ("**CNCA**") is responsible for organising and implementing the compulsory product certification system.

Pursuant to the catalogue of products subject to the compulsory product certification jointly published and updated by AQSIQ and CNCA, and the description and definition table of the catalogue announced by CNCA, the compulsory product certification must be conducted for seven categories of children toys and products, including (i) children bicycles, tricycles, strollers, baby walking frames and other toy cars or bicycles; (ii) electric toys; (iii) plastic toys; (iv) metal toys; (v) catapulting toys; (vi) doll toys; and (vii) restraining devices for child occupants of power-driven vehicles including child car seats. These toys must be imported into China and sold on the Chinese market with CCC mark.

Competition and Fair Trading

The PRC Law on Anti-Unfair Competition (反不正當競爭法) was promulgated by the National People's Congress Standing Committee on 2 September 1993 and came into effect on 1 December 1993. The law provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or trade secrets;
- false publication through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and
- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices and offering prizes as sales rebates illegally.

Pursuant to the law and the Interim Provisions on Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) issued by the State Administration for Industry and Commerce (國家工商行政管理總局) ("**SAIC**") in 1996 in accordance with the law, business operators may sell products at a discounted price or with a rebate, provided that (i) such discounts or rebates should be offered and accepted in an "express" way (i.e. included in contract terms) and (ii) such discounts or rebates should be accurately recorded in the accounting books.

Violations of the above law may result in civil liabilities and administrative penalties including fines, confiscation of illegal revenues and revocation of business licence, and even criminal liabilities in severe circumstances.

The Administrative Measures on Fair Trading between Retailers and Suppliers (《零售商供應商公平交易管理辦法》), jointly issued by the MOFCOM, National Development and Reform Commission, Ministry of Public Security, State Administration of Taxation ("**SAT**"), and SAIC on 13 October 2006 and effective on 15 November 2006, apply to trading activities undertaken between retailers and suppliers within the territory of the PRC. Under these measures, a retailer is prohibited to carry out a conduct that impairs fair competition or abuse its dominant market position to engage in unfair dealings. It is permissible for a retailer to charge service fees for sales promotions (such as for printing posters, holding promotional events and advertising and campaign, etc.), provided that it should obtain its supplier's prior consent and explicitly stipulate the services, fee standards and related details in the contract.

E-Commerce

The Measures on Administration of Online Trading (《網絡交易管理辦法》) were issued by SAIC on 26 January 2014 and became effective as of 15 March 2014. Under these measures, business operators which engage in online commodities trading shall make certain information available to consumers such as their address, contact details, quantity and quality of commodities, price, method of payment, method of refunding or replacement, warnings, after-sale services and civil liabilities. Online retailers are also required to adopt security measures to ensure safe and reliable online transactions, and provide commodities in accordance with their undertakings. Online retailers must provide true and accurate information in respect of the commodities. Consumers have the right to return the commodities purchased from online retailers within 7 days without stating any reason, and online retailers are obligated to refund the prices to consumers within 7 days of receipt of the commodities.

Personal Information

Pursuant to the Consumer Protection Law and the Measures on Administration of Online Trading, business operators including online retailers may only collect and use consumers' information in the principles of legality, rationality and necessity. They must explicitly inform consumers of the purpose, method and range of the proposed collection and usage of information and acquire consumers' consent. They are also required to release to the public the rules for their collection and usage of information. They must treat consumers' personal information in confidence and are prohibited from disclosing, selling or illegally furnishing such information to third parties. They are also required to take technical and other measures to safeguard consumers' personal information. Without consumers' consent or request, or if expressly rejected by consumers, business operators shall not send electronic information in commercial nature to consumers.

The PRC Law on Advertising (中華人民共和國廣告法), as revised and adopted by Standing Committee of the National People's Congress, came info force on September 1, 2015. This law applies to commercial advertising activities in which commodity dealers or service providers directly or indirectly introduce, via certain media and in certain forms, goods or services marketed by them within the PRC. Pursuant to the law, the content of an advertisement shall be expressed in a true, lawful, and healthy manner. The advertisement shall not have false or misleading representations, nor defraud or mislead consumers. Where an advertisement indicates the performance, functions, place of origin, uses, quality, ingredients, price, producer, term of validity, and promises, among others, of the goods or the content, provider, form, quality, price, and promises, among others, of the services, such indication shall be accurate, clear, and understandable. The advertiser who designs, produces, and publishes an advertisement or entrusts any other person to do so for the purpose of marketing its goods or services shall be responsible for genuineness of the content of the advertisement. Advertisers shall abide by laws and regulations and compete in a fair manner in advertising activities. The SAIC and its local branches are responsible for supervising and regulating advertising activities.

Import and Export of Goods

According to the PRC Law on Foreign Trade (中華人民共和國對外貿易法) promulgated by the Standing Committee of the National People's Congress on 12 May 1994 and revised in 2004 and 2016 respectively, and the Measures on Filing and Registration of Foreign Trade Business Operators (對外貿易經營者備案登記辦法) issued by MOFCOM on 25 June 2004 and effective on 1 July 2004, foreign trade business operators engaged in import of goods are required to go through filing and registration procedures with MOFCOM or agencies it entrusts. Foreign trade business operators failing to go through such procedures will be declined by the Customs to process customs clearance.

According to the Customs Law of the PRC (中華人民共和國海關法) adopted by the Standing Committee of the National People's Congress, effective on 1 July 1987 and revised in 2000, 2013 and 2016 respectively, and the Regulations of PRC Customs on Administration of Registration of Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) effective as of 13 March 2014, import and export of goods are subject to the Customs' control. Consignees of import goods have the obligation to make true declarations to the Customs. Duties shall be levied by the Customs in respect of the goods allowed to be imported. Consignees of import goods are required to be registered with the local Customs and obtain the Certificate for Registration of Consignee or Consignor of Import or Export Goods for Declarations with PRC Customs.

The PRC Law on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) was promulgated by the Standing Committee of the National People's Congress on 21 February 1989 and revised in 2002 and 2013 respectively. The regulations for implementing the law were issued by the State Council and became effective as of 1 December 2005, and were subsequently revised in 2016. According to these law and regulations, AQSIQ has formulated the catalogue of commodities subject to compulsory inspection at import. Consignees of the import goods listed in the catalogue shall, by themselves or through an entrusted agent, apply to AQSIQ or its local branches to conduct compulsory inspection. The imported goods can be sold and used only after the compulsory inspection is completed. Consignees of import goods are required to register with the AQSIQ or its local branches so that they can file the applications for compulsory inspection by themselves.

Labour and social security

The Labour Law of the PRC (中華人民共和國勞動法) was promulgated by the Standing Committee of the National People's Congress on 5 July 1994 and became effective on 1 January 1995. The Labour Contract Law of the PRC (中華人民共和國勞動合同法) was promulgated on 29 June 2007 and amended on 28 December 2012 by the Standing Committee of the National People's Congress and became effective as of 1 January 2008. Pursuant to these laws, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises and employees. The salaries paid by enterprises to their employees shall not be lower than the local minimum salary standard. The salaries shall be paid by the enterprises on time and in full to the employees. Enterprises shall maintain work place safety and sanitation conditions in compliance with relevant laws and regulations.

Employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurances) and the housing fund for employees in accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法) adopted by the Standing Committee of the National People's Congress on 28 October 2010 and effective on 1 July 2011 and the Regulations Concerning Housing Fund Administration (住房公積金管理條例) effective as at 3 April 1999 and amended on 24 March 2002.

Trademark

The Trademark Law of the PRC (中華人民共和國商標法), adopted in 1982 and revised respectively in 1993, 2001 and 2013 and effective as 1 May 2014, protects registered trademarks. The China Trademark Office under the State Administration for Industry and Commerce is responsible for trademark registrations. Upon the registration of a trademark, the register will have the right to exclusively use the trademark. The validity period of a registered trademark is 10 years and may be extended thereafter.

Taxation

Enterprise Income tax

The PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "**EIT Law**") was promulgated on 16 March 2007. The Implementation Regulations of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) (the "**Implementation Regulations**") were promulgated on 6 December 2007. The EIT Law and Implementation Regulations took effect on 1 January 2008.

Pursuant to the EIT Law and Implementation Regulations, EIT taxpayers include resident enterprises and non-resident enterprises. Resident enterprises refer to enterprises established the PRC under PRC laws or established according to foreign laws but under actual control of management located in the PRC. Non-resident enterprises refer to enterprises that are established in accordance with foreign laws and under actual control of management outside the PRC but have set up organisations and sites in the PRC, and enterprises that have not set up organisations and sites in the PRC but have gains sourced from the PRC. The enterprise income tax rate is 25%. However, for non-resident enterprises which have not set up organisations or sites in the PRC or which have set up organisations and sites in the PRC but their gains from the PRC are not actually connected to the established organisations or sites, the enterprise income tax rate applicable to the gains sourced from China is 10%.

Pursuant to the EIT Law, the Implementation Regulations and the Interim Measures on Administration of Withholding at Source of Income Tax of Non-resident Enterprise (非居民企業所得稅源泉扣繳管理暫行辦法) issued by SAT and effective as of 1 January 2009, where a non-resident enterprise is subject to the withholding tax, the tax shall be withheld at source by the entity or person that is obligated to make payment to the non-resident enterprise, acting as the withholding agent, from the amount that is to be paid or becomes due and payable. The due and payable amount refers to the amount that should be recognised as costs or expenses on the accrual basis. When a withholding agent enters into a business contract with a non-resident enterprise which is relating to the non-resident enterprise's income from China subject to withholding tax, it is required to submit the business contract together with a registration form and related materials to the competent tax authority for filing and registration.

On 3 February 2015, SAT released the Announcement on Several Issues of Enterprise Income Tax Concerning Non-resident Enterprises' Indirect Transfer of Assets (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) ("**SAT Announcement 7**"). Pursuant to SAT Announcement 7, if a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise or other taxable PRC assets indirectly via disposing of the equity interest or other similar interests of an overseas holding company, which is lack of reasonable commercial purpose and avoids the PRC enterprise income tax liability, such indirect transfer shall be re-characterised as the direct transfer of the equity interests in the PRC resident enterprise or other taxable PRC assets and as a result, gains from such indirect transfer may be subject to PRC enterprise income tax. If the indirect transfer is subject to PRC enterprise income tax, the transferee who is liable to make payments to the transferor shall act as the withholding agent to withhold the applicable tax and remit to the competent tax authorities. The SAT Announcement No. 7 sets forth safe harbour rules covering qualified intra-group reorganisation transactions, transactions occurred in public stock exchanges and transactions that would have been eligible for treaty exemptions. According to SAT Announcement No. 7, the transferor and transferee and the PRC resident enterprise whose equity interests are indirectly transferred may report to the competent tax authorities in respect of the indirect transfer.

Value Added Tax

The Interim Regulations of the PRC Concerning Value Added Tax (中華人民共和國增值稅暫行條例) (the "**VAT Regulations**") were promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994, and were subsequently revised in 2008 and 2016. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. For general VAT payers who sell or import goods and who are not specified as special taxpayers in VAT Regulations, the VAT rate is 17%.

Dividend Withholding Tax

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The Implementation Regulations have reduced the rate from 20% to 10%.

Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and 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稅避免雙重徵稅和防止偷漏稅的安排), 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident that directly holds at least 25% of the equity interests in the PRC company, and 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident that holds less than 25% of the equity interests in the PRC company.

Foreign Investment

Foreign investors' investment activities in the PRC are principally governed by the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the "**Catalogue**") promulgated and amended from time to time by MOFCOM and NDRC. The Catalogue divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are classified as permitted and generally open to foreign investment. Pursuant to the Catalogue as revised in 2015 and 2017 respectively, our distribution including retail and wholesale business falls within the permitted category.

On 8 August 2006, MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, CSRC, SAT, SAIC and SAFE jointly issued the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Regulations**"), which became effective on 8 September 2006 and were revised by MOFCOM on 22 June 2009. According to the M&A Regulations, a foreign investor's merger and acquisition of a domestic non-foreign invested enterprise by way of either equity acquisition or assets acquisition is subject to the examination and approval of MOFCOM or its local branches at provincial level.

Foreign Exchange

Pursuant to the Regulations on Foreign Exchange Control of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and most recently amended in 2008 and other regulations issued by SAFE, RMB can be converted into foreign currencies without the approval from SAFE by complying with certain procedural requirements, for settlement of current account such as trade balance and payment of interest and dividends on a basis of genuineness and legality. By contrast, conversion of RMB into foreign currencies and remittance of converted foreign currency out of the PRC for settlement of capital account including direct investment and repayment of loans require the prior approval from or registration with SAFE or its local branches, or banks entrusted by SAFE to process designated registration matters.

On 14 July 2014, SAFE promulgated the Circular on Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "Circular No. 37"). Pursuant to the Circular No. 37, a PRC resident must register with the competent local SAFE branch for his or her overseas investment in an overseas special purpose vehicle that is directly established or indirectly controlled by him or her for the purpose of investment or financing. The registration shall be completed before the PRC resident makes contribution to the special purpose vehicle with domestic or overseas assets or interests legally owned by him/her. In the event the basic registration information of the special purpose vehicle (such as its PRC resident shareholder, name or term of operation, etc.) changes, or material change occurs (such as the PRC resident shareholder's increase or reduction of capital, equity transfer or swap, merger or spin-off, etc.), the registration for amendment shall be handled in a timely manner with the competent local SAFE branch. Pursuant to the circular of SAFE on Further Simplifying and Improving Foreign Exchange Administration on Direct Investments (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), SAFE has authorised the qualified local banks to review and process the various foreign exchange registrations directly for overseas investments, including the registration under the Circular No. 37, and SAFE and its local branches conduct indirect supervision and administration through the banks over such registrations.

HONG KONG

Consumer Goods Safety Ordinance

There are several pieces of legislation dealing with product safety requirements, the most common one being the Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) (the "**CGS Ordinance**"). Under the CGS Ordinance, all consumer goods (except those listed in the Schedule of the CGS Ordinance) must comply with the general safety requirements or the safety standards and specifications approved by the Secretary for Commerce and Economic Development of Hong Kong.

The CGS Ordinance imposes a statutory duty on manufacturers, importers and suppliers to ensure that the consumer goods they supply are reasonably safe, having regard to all the circumstances, including (a) the manner in which, and the purpose for which, the consumer goods are presented, promoted or marketed; (b) the use of any mark in relation to the consumer goods and instructions or warnings given for the keeping, use or consumption of the consumer goods; (c) reasonable safety standards published by a standards institute or similar body for consumer goods of the description which applies to the consumer goods or for matters relating to consumer goods of that description; and (d) the existence of any reasonable means to make the consumer goods safer. The CGS Ordinance also provides a defence of due diligence.

Any person who sells unsafe goods commits an offence and is liable to a fine of HK$100,000 and an imprisonment of one year on first conviction, and HK$500,000 and two-year imprisonment on subsequent conviction. Those unsafe goods shall be liable to be destroyed.

Contractual Obligations and the Sale of Goods Ordinance

In Hong Kong, contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong). The safety and suitability requirements of the goods supplied are often treated as an implied term of the sale contract; and that ordinance governs the meaning of certain implied conditions and warranties. The Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) regulates civil liability and has an impact on the effectiveness of any terms in the contract which seeks to avoid civil liability for breach of contract, negligence or other breaches of duty. Both of these statutes seek to supplement the common law position and provide further protection to consumers or users as contracting parties.

Tortious Obligations

Besides contractual duties, there may also be duties of care owed by suppliers of goods under the common law and in particular, under the law of negligence. For example, there is a duty of care owed by the importer and supplier of products and that duty is owed to consumers of such products. If an importer or supplier discovers or has reasons to believe that its product may be unsafe, he may have to cease to supply the product in its unsafe form, and to give proper warning and instructions to persons to whom the product is supplied. Where the risk of injury is high, the required standard of care will also be high. Any person who undertakes to design, import or supply a product, and who negligently performs his work and causes damage to other person or property, will be liable as a result. Some products may carry inevitable risk upon use. A dangerous product can be safe if sufficient precaution is taken in handling or use. The duty on the supplier is to provide proper labelling, and adequate and clear instructions for handling and use of the product so as to warn the users of their products against a foreseeable danger.

Labelling

The Consumer Goods Safety Regulation (Chapter 456A of the Laws of Hong Kong) requires that any warning or caution with respect to the safe keeping, use, consumption or disposal of any consumer goods must be given in both Chinese and English. Further, the warning or caution must be legible and placed in a conspicuous position on the consumer goods themselves, on any package containing the consumer goods, on a label securely affixed to the package or on a document enclosed within the package.

Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

The Inland Revenue Ordinance is an ordinance enacted for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The Inland Revenue Ordinance provides, among other things, that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his or her assessable profits arising in or derived from Hong Kong at the rate of 16.5% for corporate taxpayers. The Inland Revenue Ordinance also contains detailed provisions relating to, among other things, permissible deductions for outgoings and expenses and allowances for depreciations of capital assets.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

The mandatory provident fund scheme (the "**MPF Scheme**") is defined contribution retirement scheme managed by authorised independent trustees. The Mandatory Provident Fund Schemes Ordinance provides that an employer shall participate in an MPF Scheme and make contributions for its employees aged between 18 and 65. Under the MPF Scheme, an employer and its employee are both required to contribute 5% of the employee's monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. The maximum level of relevant income for contribution purposes is currently HK$3,000 per month or HK$36,000 per year.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate and such rate is currently at HK$34.5 per hour for every employee employed under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury or damage resulting to persons or goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of a premise to take reasonable care of the premises in all circumstances so as to ensure that his visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

OUR HISTORY

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 26 April 2017. Since its incorporation, our Company has been an investment holding company with no business operations. Pursuant to the Reorganisation, as more particularly described in the section headed "History, Reorganisation and Corporate Structure – Reorganisation", our Company has become the holding company of our Group for the purpose of the Listing.

OUR BUSINESS DEVELOPMENTS AND KEY MILESTONES

Our Group's history can be traced back to 2001 when Mr. Lee, sourced by personal financial resources accumulated from his toy manufacturing business, established the first subsidiary of our Group, Kidsland China, in the PRC. Prior to the establishment of Kidsland China, Mr. Lee had accumulated extensive industry knowledge and market understanding of more than 9 years of experience in toy manufacturing .

The following sets out the major business milestones of the development of our Group:

Year	Milestone
2001	The first member of our Group, Kidsland China, was established in April 2001
2001	The LEGO Group became our supplier
2006	Our first Kidsland store opened in 2006 in Beijing
2011	Our first flagship store was launched on Tmall in 2011
2012	Our first Babyland store opened in 2012 in Beijing
2016	Our first LEGO Certified Store in Hong Kong opened in August 2016
2017	Our first LEGO Certified Store in Beijing opened in May 2017

OUR CORPORATE DEVELOPMENTS

The major corporate developments of members of our Group which were material to our performance during the Track Record Period are set out below:

Shanghai Haisile

Shanghai Haisile was established in the PRC on 28 July 2008 with a registered capital of RMB0.5 million and commenced business in July 2008. Since its establishment, Shanghai Haisile has been wholly-owned by Beijing Haisile, which in turn has been indirectly wholly-owned by Kidsland Holdings. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Shanghai Haisile became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Shanghai Haisile was primarily engaged in the trading and sale of toys and infant products in Central China.

Chengdu Haisile

Chengdu Haisile was established in the PRC on 3 November 2010 with a registered capital of RMB0.5 million and commenced business in November 2010. Since its establishment, Chengdu Haisile has been wholly-owned by Beijing Haisile, which in turn has been indirectly wholly-owned by Kidsland Holdings. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Chengdu Haisile became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Chengdu Haisile was primarily engaged in the trading and sale of toys and infant products in Southern China.

Shenzhen Haisile

Shenzhen Haisile was established in the PRC on 29 August 2008 with a registered capital of RMB0.5 million and commenced business in August 2008. Since its establishment, Shenzhen Haisile has been wholly-owned by Beijing Haisile, which in turn has been indirectly wholly-owned by Kidsland Holdings. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Shenzhen Haisile became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Shenzhen Haisile was primarily engaged in the trading and sale of toys and infant products in Southern China.

Guangzhou Haisile

Guangzhou Haisile was established in the PRC on 18 December 2012 with a registered capital of RMB0.5 million and commenced business in December 2012. Since its establishment, Guangzhou Haisile has been wholly-owned by Beijing Haisile, which in turn has been indirectly wholly-owned by Kidsland Holdings. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Guangzhou Haisile became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Guangzhou Haisile was primarily engaged in the trading and sale of toys and infant products in Southern China.

Beijing Haisile

Beijing Haisile was established in the PRC on 14 June 2006 with an initial registered capital of RMB1 million and commenced business in June 2006. Since its establishment, Beijing Haisile has been wholly-owned by Kidsland China, which in turn has been indirectly wholly-owned by Kidsland Holdings.

In December 2007, the registered capital of Beijing Haisile increased from RMB1 million to RMB3 million. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Beijing Haisile became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Beijing Haisile was primarily engaged in the trading and sale of toys and infant products in Northern China.

Silverkids Tianjin

Silverkids Tianjin was established in the PRC on 17 February 2014 with a registered capital of HK$17 million and commenced business in February 2014. Since its establishment, Silverkids Tianjin has been indirectly wholly-owned by Silverkids which was then owned as to 58% by Lovable International Holdings Limited ("**Lovable International Holdings**"), 38% by Brilliant Sino and 4% by an Independent Third Party, respectively. Prior to our acquisition of 58% of the issued share capital of Silverkids in May 2017, Brilliant Sino acquired 4% of the issued share capital of Silverkids from the Independent Third Party and Silverkids became owned as to 58% by Lovable International Holdings and 42% by Brilliant Sino.

As part of the Reorganisation, our Company acquired 58% of the issued share capital of Silverkids in May 2017. Subsequent to such acquisition, Silverkids Tianjin became an indirect non-wholly owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section. Pursuant to the above acquisition, our Company on 29 May 2017 executed a joinder to a shareholders' agreement dated 28 January 2014 among the then shareholders of Silverkids and became a party thereto, pursuant to which our Company shall, together with Brilliant Sino as the other shareholder of Silverkids, have pre-emptive rights to new shares of Silverkids and the rights to nominate directors to the board of Silverkids and examine the financial information of the Silverkids Group, among other things.

As at the Latest Practicable Date, Silverkids Tianjin was primarily engaged in the distribution and sale of toys in Northern China.

Kidsland LCS

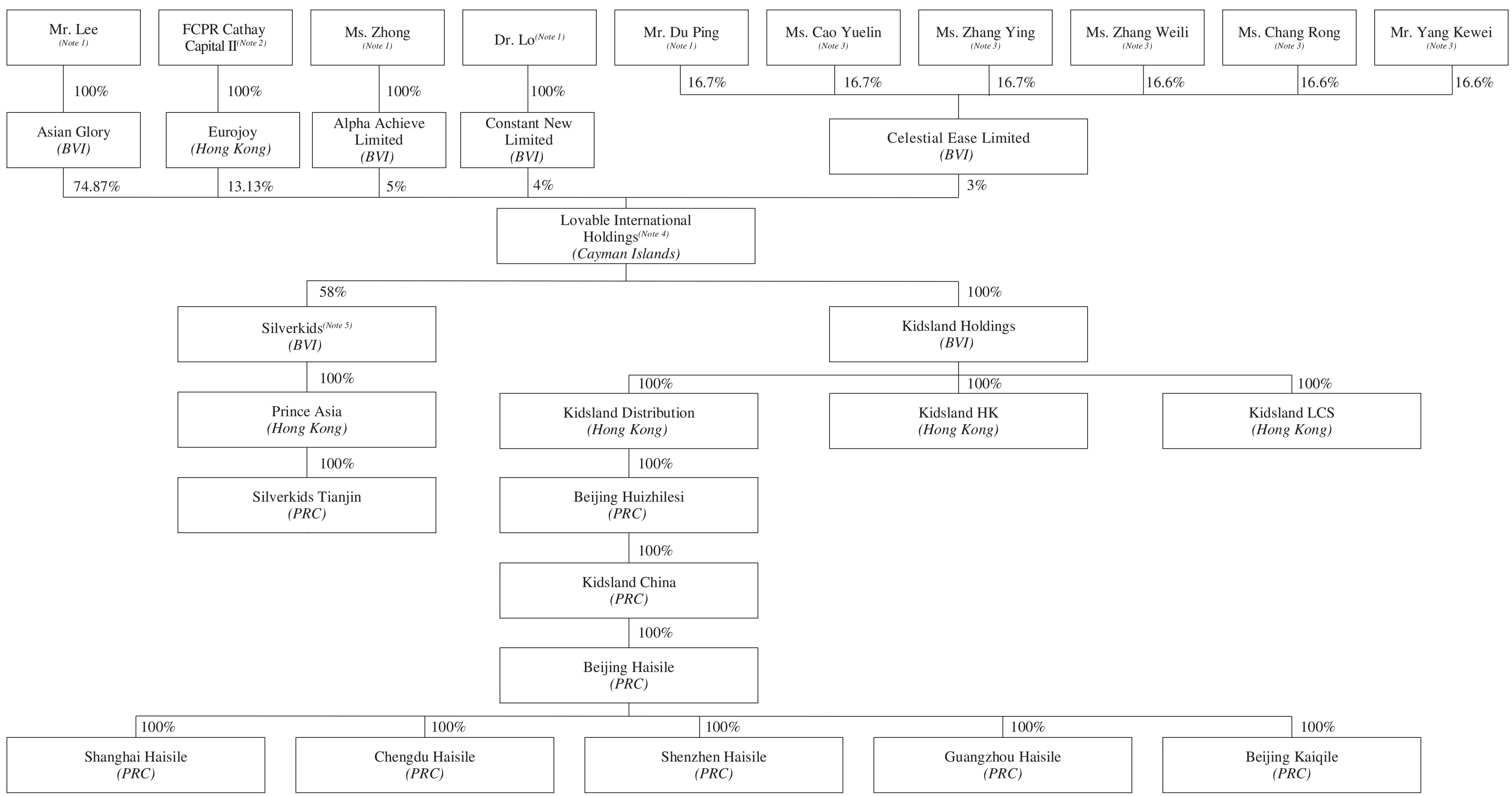
Kidsland LCS was incorporated in Hong Kong on 23 March 2016 and commenced business in June 2016. Upon incorporation, 8,000,000 shares of Kidsland LCS were allotted and issued to Kidsland Holdings at the consideration of HK$8,000,000, which was determined with reference to the then par value of the allotted shares of HK$1 per share. Since its incorporation, it has been wholly-owned by Kidsland Holdings. As part of the Reorganisation, our Company acquired the entire issued share capital of Kidsland Holdings in May 2017. Subsequent to such acquisition, Kidsland LCS became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed "– Reorganisation" in this section.

As at the Latest Practicable Date, Kidsland LCS was primarily engaged in retail sale of toys in Hong Kong.

REORGANISATION

We commenced the Reorganisation in April 2017 in preparation for the Global Offering.

The following chart sets forth our Group's corporate and shareholding structure immediately before the Reorganisation.



Notes:

(1) Each of Mr. Lee, Ms. Zhong, Dr. Lo and Mr. Du Ping is a Director. For further information on our Directors, please refer to the section headed "Directors and Senior Management" of this prospectus.

(2) FCPR Cathay Capital II is a private equity investment fund registered with the French authority and to the best of our Company's knowledge, is owned by Independent Third Parties, none of whom holds more than 20% interest therein.

(3) Each of Ms. Cao Yuelin, Ms. Zhang Ying, Ms. Zhang Weili, Ms. Chang Rong and Mr. Yang Kewei is a member of our senior management. For further information on our senior management, please refer to the section headed "Directors and Senior Management" of this prospectus.

(4) Lovable International Holdings had been held by the shareholders in the shareholding percentages shown in the above chart throughout the Track Record Period and until immediately prior to the Reorganisation. As at the time of the above chart, Lovable International Holdings also owned the entire issued share capital of Lovable Holdings Limited, a company incorporated in the Cayman Islands, and its direct and indirect wholly-owned subsidiaries which are engaged in the manufacturing of toys. Lovable International Holdings disposed of its entire interest in Lovable Holdings Limited to a Controlling Shareholder in April 2017. For further details, please refer to the paragraph headed "Reasons for not including certain business in our Group" in this section and the section headed "Relationship with our Controlling Shareholders" in this prospectus.

(5) The remaining shareholding in Silverkids was owned as to 4% by an Independent Third Party and 38% by Brilliant Sino, which in turn is wholly-owned by Mr. Choi Kei Fung, a director of Silverkids.

Incorporation of our Company

Our Company was incorporated on 26 April 2017 in the Cayman Islands as the holding company of our Group. The initial authorised share capital of our Company was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each and one Share was allotted and issued to the initial subscriber at par, who then transferred such Share to Lovable International Holdings on the same date. Upon completion of such issuance and transfer, our Company became wholly-owned by Lovable International Holdings.

Acquisition of Silverkids

On 29 May 2017, our Company acquired 58 shares, representing 58% of the issued share capital of Silverkids, from Lovable International Holdings at a consideration of US$58, which was determined with reference to the par value of the shares of Silverkids of US$1 per share. The consideration for such acquisition was satisfied by our Company allotting and issuing one Share, credited as fully paid, to Lovable International Holdings on 29 May 2017. Upon completion of such acquisition, Silverkids became a direct non-wholly owned subsidiary of our Company.

Acquisition of Kidsland Holdings

On 29 May 2017, our Company acquired one share, representing the entire issued share capital of Kidsland Holdings, from Lovable International Holdings at a consideration of US$1, which was determined with reference to the par value of the shares of Kidsland Holdings of US$1 per share. The consideration for such acquisition was satisfied by our Company allotting and issuing one Share, credited as fully paid, to Lovable International Holdings on 29 May 2017. Upon completion of such acquisition, Kidsland Holdings became a direct wholly-owned subsidiary of our Company.

Subscription of Shares

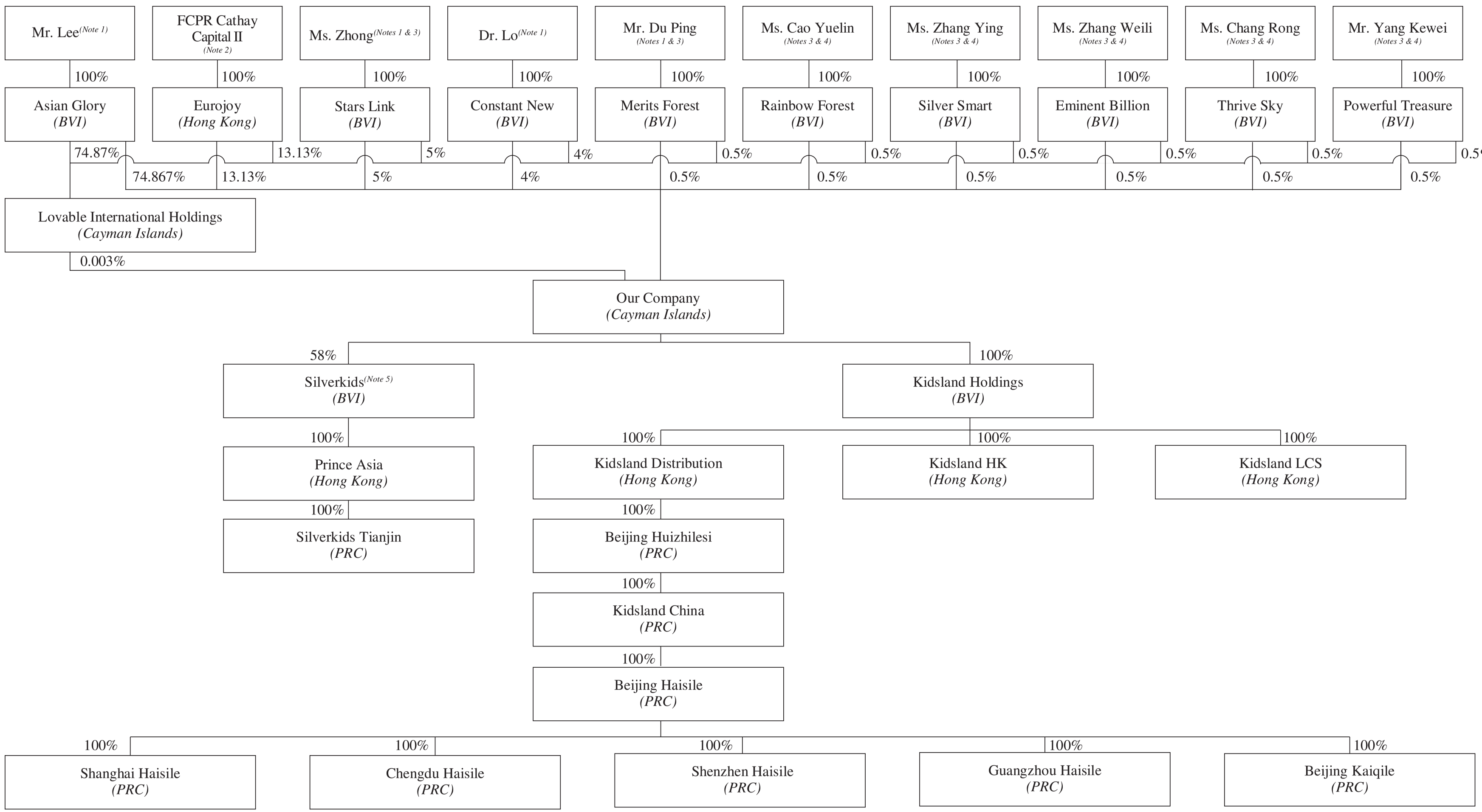
For the purpose of facilitating more direct shareholding in our Company, each of the then shareholders of Lovable International Holdings subscribed for new Shares on 9 June 2017 as follows:

Name of shareholder of Lovable International Holdings on 9 June 2017	Number of Shares subscribed for	Consideration
Asian Glory	74,870	HK$748.7
Eurojoy	13,130	HK$131.3
Stars Link Ventures Limited (“**Stars Link**”)	5,000	HK$50.0
Constant New Limited (“**Constant New**”)	4,000	HK$40.0
Merits Forest Global Limited (“**Merits Forest**”)	500	HK$5.0
Rainbow Forest Group Limited (“**Rainbow Forest**”)	500	HK$5.0
Silver Smart Global Limited (“**Silver Smart**”)	500	HK$5.0
Eminent Billion Global Limited (“**Eminent Billion**”)	500	HK$5.0
Thrive Sky Ventures Limited (“**Thrive Sky**”)	500	HK$5.0
Powerful Treasure Investment Limited (“**Powerful Treasure**”)	500	HK$5.0

The consideration for each of the above subscriptions was determined with reference to the par value of our Shares and settled in June 2017.

The above acquisitions were legally completed and settled and were in compliance with the relevant laws and regulations.

The following chart sets forth our Group's corporate and shareholding structure immediately after completion of the Reorganisation, but before the completion of the Global Offering and the Capitalisation Issue.



Notes:

(1) Each of Mr. Lee, Ms. Zhong, Dr. Lo and Mr. Du Ping is a Director. For further information on our Directors, please refer to the section headed "Directors and Senior Management" of this prospectus.

(2) FCPR Cathay Capital II is a private equity investment fund registered with the French authority and to the best of our Company's knowledge, is owned by Independent Third Parties, none of whom holds more than 20% interest therein.

(3) For the purpose of facilitating a more direct shareholding in Lovable International Holdings, this ultimate shareholder changed his/her investment vehicle in Lovable International Holdings in May 2017.

(4) Each of Ms. Cao Yuelin, Ms. Zhang Ying, Ms. Zhang Weili, Ms. Chang Rong and Mr. Yang Kewei is a member of our senior management. For further information on our senior management, please refer to the section headed "Directors and Senior Management" of this prospectus.

(5) Brilliant Sino acquired 4% of the issued share capital of Silverkids from an Independent Third Party in May 2017. After completion of such transfer, the remaining 42% of the issued share capital of Silverkids was owned by Brilliant Sino, which in turn is wholly-owned by Mr. Choi Kei Fung, a director of Silverkids.

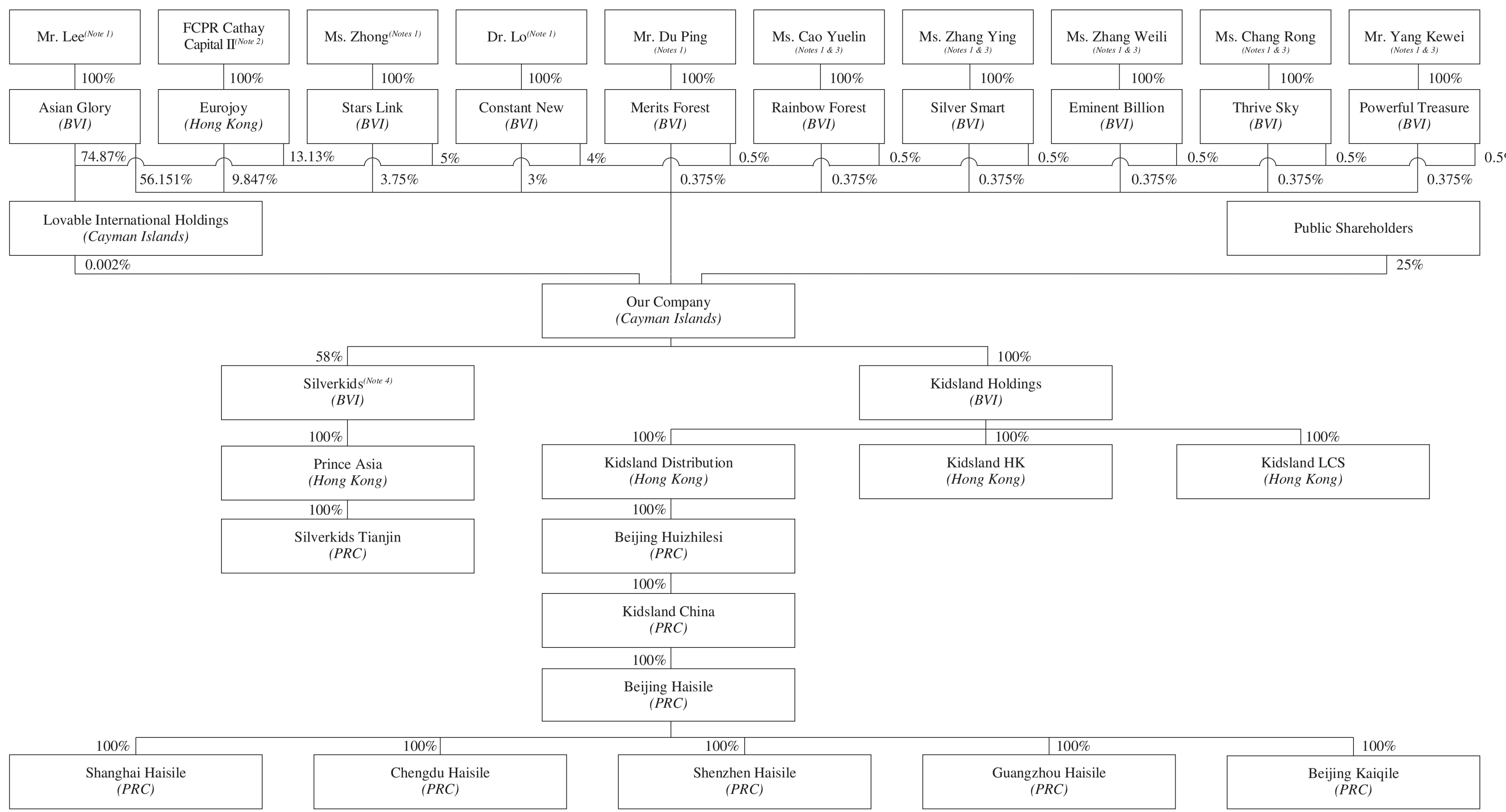
INCREASE OF AUTHORISED SHARE CAPITAL

On 20 October 2017, our Company increased its authorised share capital to HK$500,000,000 through the creation of 49,962,000,000 additional Shares of nominal value of HK$0.01 each.

CAPITALISATION ISSUE

Conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors are authorised to capitalise an amount of HK$5,998,999.97 from the share premium account of our Company by applying such sum towards the paying up in full at par a total of 599,899,997 Shares for the allotment and issuance to persons whose names appear on the register of members of our Company immediately prior to the Listing Date, on a pro rata basis.

The following chart sets forth our Group's corporate and shareholding structure upon completion of the Global Offering and the Capitalisation Issue (without taking into account our Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Post-IPO Share Option Scheme):



Notes:

(1) Each of Mr. Lee, Ms. Zhong, Dr. Lo and Mr. Du Ping is a Director. For further information on our Directors, please refer to the section headed "Directors and Senior Management" of this prospectus.

(2) FCPR Cathay Capital II is a private equity investment fund registered with the French authority and to the best of our Company's knowledge, is owned by Independent Third Parties, none of whom holds more than 20% interest therein.

(3) Each of Ms. Cao Yuelin, Ms. Zhang Ying, Ms. Zhang Weili, Ms. Chang Rong and Mr. Yang Kewei is a member of our senior management. For further information on our senior management, please refer to the section headed "Directors and Senior Management" of this prospectus.

(4) The remaining 42% of the issued share capital of Silverkids is owned by Brilliant Sino, which in turn is wholly-owned by Mr. Choi Kei Fung, a director of Silverkids.

REASONS FOR NOT INCLUDING CERTAIN BUSINESS IN OUR GROUP

As at the Latest Practicable Date, our Controlling Shareholders and their close associates held and controlled certain entities (including companies historically held by directly and indirectly Lovable Holdings Limited) which were engaged in the manufacturing of toys under brands owned by their customers. In order to focus on the business of our Group, being the retail sale and distribution of toys and infant products, such toy manufacturing business for brand owners will not form part of our Group after the Listing. Such exclusion is due to differences in nature of business and customer focus. For further details, please refer to the section headed "Relationship with Our Controlling Shareholders" in this prospectus.

PRE-IPO SHARE OPTION SCHEME

In recognition of the contributions of certain employees and executive officers of our Group made or may have been made to the growth of our Group, we introduced the Pre-IPO Share Option Scheme and a total of 78 Pre-IPO Eligible Participants have been granted such options under our Pre-IPO Share Option Scheme. For further details, please refer to the section headed "Statutory and General Information – D. Other information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

M&A RULES

On 8 August 2006, six PRC regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and amended by MOFCOM on 22 June 2009. The M&A Rules, among other things, provides that a foreign investor seeking acquisition of the equity interest in or subscription to the increased capital of a non-foreign-invested PRC enterprise, or purchasing and operating the assets of that enterprise by establishing a foreign-invested enterprise in the PRC, shall obtain the approval of MOFCOM or its counterparts at provincial level. The M&A Rules further purported that an offshore special vehicle formed for listing purposes and controlled directly or indirectly by domestic companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

As advised by our PRC Legal Advisers, (i) Beijing Huizhilesi and Silverkids Tianjin classified as foreign invested enterprises were established by incorporation instead of acquisition; (ii) Kidsland China is governed by the Interim Provisions on Foreign-invested Enterprises Investing Domestic Enterprises (《關於外商投資企業境內投資的暫行規定》); and (iii) our other PRC – established subsidiaries are classified as domestic PRC enterprises since their incorporation. As such, the M&A Rules are not applicable and approval from the CSRC is not required for this Listing.

CIRCULAR NO. 37

On 14 July 2014, SAFE promulgated the Circular on Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular No. 37**"). Pursuant to the Circular No. 37, a PRC resident must register with the competent local SAFE branch for his or her overseas investment in an overseas special purpose vehicle that is directly established or indirectly controlled by him or her for the purpose of investment or financing. Pursuant to the circular of SAFE on Further Simplifying and Improving Foreign Exchange Administration on Direct Investments (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), SAFE has authorised the qualified local banks to review and process the various foreign exchange registrations directly for overseas investments, including the registration under the Circular No. 37, and SAFE and its local branches conduct indirect supervision and administration through the banks over such registrations.

As advised by our PRC Legal Advisers, each of Ms. Zhong, Mr. Du Ping, Ms. Cao Yuelin, Ms. Zhang Ying, Ms. Zhang Weili, Ms. Chang Rong and Mr. Yang Kewei, as a PRC resident, has completed the registration as required by the Circular No. 37 on 6 February 2017. Considering that Mr. Lee and Dr. Lo are not PRC residents (within the meaning of Circular No.37), each of them is not subject to the registration requirements under the Circular No. 37.

OVERVIEW

We are the largest toy retailer in terms of retail sales value in 2016 in the PRC with approximately 14% market share according to the Euromonitor Report. Our Group is principally engaged in the retail and wholesale of mainly toys and infant products in the PRC and is engaged in the retail of toys in Hong Kong. Our toy products broadly include construction toys, wooden toys, electronic toys, action figures, and die-cast vehicles, while our infant products broadly include baby strollers, baby high chairs, infant car seats, nursery products and apparel and accessories for babies and infants.

As at 30 April 2017, we sourced a wide range of toys and infant products of 26 international brands from our 23 brand owners. We have two to 16 years of stable business relationships with our international brand owners. During the Track Record Period, we were granted by most of our brand owners exclusive distribution rights of their particular products in the PRC. Capitalising on our market leadership in toy retailing in the PRC, our strong distribution network, our proven track record with a diverse brand portfolio, and our experienced management team, brand owners have been willing to treat us as preferred business partner to assist them to tap into (and then grow together in) the PRC market. As we seek to diversify our brand owner base and to increase our product offerings to our end-users and wholesale customers, we entered into distributorship agreements with 11 new brand owners during the Track Record Period. As at 31 August 2017, our brand portfolio consisted of 27 international brands, and these branded products were sourced from 24 brand owners.

We made retail sales through our diverse retail network covering selected strategic geographic locations, comprising 222 retails shops in shopping malls, 532 consignment counters in department stores and a renowned toy store chain and through ten online stores on Tmall and JD.com as at 30 April 2017. We retail our products under our own brands (being Kidsland and Babyland) and brands of our brand owners such as LEGO and Chicco. We had a solid presence in Tier 1 and Tier 2 cities, with 564 retail points as at 30 April 2017. We have also strategically established retail points in Tier 3 cities in the PRC, which we believe have high growth potential.

Our Group is also engaged in the wholesale of toys and infant products through our wholesale channels, comprising distributors, hypermarket and supermarket chains and online key accounts. As at 30 April 2017, we had 878 distributors operating a total of over 2,700 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. Selling our products to distributors allows us to utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position. We also sell our products to hypermarket and supermarket chains to reach wider groups of end-users. To access a rapidly growing online retail market, our products are sold through the online platforms of our online key accounts, such as JD.com, Amazon, VIP.com, Dangdang and Suning.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our revenue amounted to approximately HK$1,324.6 million, HK$1,561.3 million, HK$1,638.4 million and HK$566.7 million, respectively, while our profit for the same periods amounted to approximately HK$100.6 million, HK$109.1 million, HK$90.0 million and HK$25.6 million, respectively.

COMPETITIVE STRENGTHS

We believe that our success to date is attributable to the following competitive strengths:

We are the largest toy retailer in terms of retail sales value in 2016 in the PRC; and we have a diverse retail network covering selected strategic geographic locations

The PRC toy retail market is highly fragmented with many small to medium-sized retailers. According to the Euromonitor Report, the five largest toy retailers in the PRC accounted for approximately 33% of market share in terms of retail sales value in 2016 and we had the largest market share of approximately 14%. In the PRC, specialty stores account for the majority market share of retail sales of infant and children's products. We retail our products under our own brands (being Kidsland and Babyland) and brands of our brand owners such as LEGO and Chicco. We have established a large self-operated retail network in the PRC, including both retail shops in major shopping malls and consignment counters in department stores and a renowned global toy store chain. As at the Latest Practicable Date, these department stores included Parkson (百盛), Isetan (伊勢丹) and the major shopping malls included China World (國貿) and some selected malls of Wanda (萬達), Hang Lung (恒隆), Joy City (大悦城), Kerry Parkside (嘉里城), Mix City (萬象城), Indigo (頤堤港) and Longfor (龍湖). We select our retail points having regard to factors such as foot traffic around the department stores or shopping malls (and, in particular, their children's zones), consumer buying power and patterns, as well as rentals and other costs and expenses. Locating our retail points within department stores and shopping malls allows us to benefit from their marketing campaigns and promotional activities.

As at 30 April 2017, we had 754 retail points which were located at selected strategic geographical regions, most of which were in Tier 1 and Tier 2 cities in the PRC. Among these retail points, 222 were retail shops, and 398 were consignment counters in department stores and 134 were consignment counters at a renowned global toy store chain.

During the Track Record Period, we gradually expanded our retail network. The number of our retail points (without taking account of online stores) increased by 11.4% from 624 as at 31 December 2014 to 695 as at 31 December 2015, and further increased by 6.5% to 740 as at 31 December 2016. During the four months ended 30 April 2017, the number of our retail points increased by 1.9% to 754.

We had a solid presence in Tier 1 and Tier 2 cities, with 564 retail points as at 30 April 2017. We have also strategically established retail points in Tier 3 cities in the PRC, which we believe have high growth potential. The number of our retail points in Tier 3 cities increased by 17.5% from 126 as at 31 December 2014 to 148 as at 31 December 2015, and further increased by 20.3% to 178 as at 31 December 2016. During the four months ended 30 April 2017, the number of our retail points in Tier 3 cities increased by 6.7% to 190.

To enable us to access a rapidly growing online retail market and increase the reach of our products to a wider range of end-customers, we launched our first online store on a third party-operated online platform in 2011. As at 30 April 2017, we had ten online stores on Tmall and JD.com. We believe that our online stores enhance brand recognition and awareness among those consumers who are used to online shopping and/or social media for updated information and exchange of ideas.

We have an extensive distribution network

In addition to our self-operated retail network, we have commenced our wholesale business since early 2000s. Since then, we sold our products to distributors, hypermarket and supermarket chains and subsequently to online key accounts.

Our distributor customers are broadly categorised into (i) offline distributors; and (ii) online distributors. These distributors purchase our products and then on-sell them to end-users through their own retail shops or to other third party retailers. As at 30 April 2017, we had 878 distributors, of which over 37.6% had business relationship with us for more than three years. As at 30 April 2017, these distributors operated a total of over 2,700 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. To the best of our knowledge and belief, all of our distributors are Independent Third Parties with relevant retail and management experience in the PRC.

We sell our products directly to hypermarket and supermarket chains which on-sell our products to end-users through their physical retail shops. As at 30 April 2017, we sold our products to 12 hypermarket and supermarket chains and (based on the information provided by such hypermarket and supermarket chains) they operated a total of 635 physical retail shops in the PRC. Among these physical retail shops, 493 were located in Tier 1 and Tier 2 cities and 142 were located in Tier 3 cities. To the best of our knowledge and belief, all of such hypermarket and supermarket chains are Independent Third Parties.

Online platforms of our online key accounts include JD.com, Amazon, VIP.com, Dangdang and Suning. Online key accounts purchase products from us and then on-sell on their online platforms. As at 30 April 2017, we sold our products to 15 online key accounts. To the best of our knowledge and belief, all of our online key accounts are Independent Third Parties.

We have a stable and collaborative relationship with renowned international brand owners and are able to source and distribute diverse popular and/or high-quality toys and infant products

As at 30 April 2017, our brand portfolio consisted of 26 international brands, including LEGO, Silverlit, Chicco, Siku, Schleich, Brio, K's Kids and Aprica. These branded products were sourced from 23 brand owners. As at 30 April 2017, out of these 23 brand owners, two have been our brand owners for more than 15 years, three have been our brand owners for more than five years and 11 have been our brand owners for more than three years.

Our diversified product range and brands target affluent parents or expectant parents who are willing to spend more on well-known international branded toys and infant products. We believe that our well-diversified brand portfolio and high quality products are crucial to our ability to differentiate our products from, and to compete effectively with, other players in the toys and infant products market.

The first member of our Group was established in 2001, and has been carrying on the business of distribution of toys and infant products since then. We have established a good reputation in the PRC. Capitalising on our market leadership in toy retailing in the PRC, our strong distribution network, our proven track record with a diverse brand portfolio, and our experienced management team, brand owners have been willing to treat us as preferred business partner to assist them to tap into (and then grow together in) the PRC market. During the Track Record Period, we entered into distributorship agreements with 11 new brand owners. By having established a stable and collaborative relationship with our brand owners, we are able to source and then sell and distribute diverse popular and/or high-quality toys and infant products.

Multi-brand strategy enables us to increase our bargaining power and attract a wider customer base

During the Track Record Period, we were granted by most of our brand owners the exclusive distribution rights of their particular products in the PRC. We sell our products both in multi-brand retail shops (namely, Kidsland and Babyland) and single brand retail shops (e.g. LEGO Certified Stores and Chicco stores). We believe that having a portfolio of different brands and product offerings under one roof not only creates positive brand synergies, but also increase our bargaining power with department stores, shopping malls and potential brand owners or end-customers. These multi-brand retail shops allow us to showcase our latest products of different brands and play a marketing role in raising their product profiles.

Over the years, we have capitalised on market opportunities by introducing new brands and new product offerings to our end-customers, thereby enabling us to access a wide range of end-customers and diversify the source of revenue. As at 30 April 2017, we offered a wide range of high-quality toys and infant products of 26 international brands. During the Track Record Period, we entered into distributorship agreements with 11 new brand owners.

Our diverse products (ranging from infant products to toys) allow our end-users (including expectant parents and affluent parents) to make purchases to suit their children's needs at various growth stages.

We have a stable and seasoned management team with proven track record

We have a dedicated and experienced management team with extensive expertise and in-depth understanding in different areas of the PRC toy and infant product markets. Our management team is led by our founder, Mr. Lee, an executive Director, chief executive officer and chairman of the Board, who has 25 years of experience in the toy industry. Under the leadership of Mr. Lee, we have become one of the leading toys distributors and retailers in the PRC with extensive nationwide retail network. Dr. Lo joined our Group in 2010 and brought with him a wealth of experience in fields such as corporate finance, corporate development and investor and public relations. Ms. Zhong has more than 20 years of experience in the distribution and retailing of toys and infant products in the PRC. Our management team has been stable over the years, and most of the members of our management team have been with our Group for more than 10 years. We believe that the knowledge, experience and strategic vision of our management team have been crucial to the success of our business and enabled us to anticipate market trends and stay ahead of our competitors. For details of the background of our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

We believe that the interests of our management and employees are in line with our Shareholders' interests and they are appropriately incentivised to create value for our business and our Shareholders. Immediately following completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Schemes), our Directors and senior management are together interested in approximately 65.153% of the issued share capital of our Company. We adopted the Pre-IPO Share Option Scheme to reward the contributions of certain directors and employees of our Group. We also adopted the Post-IPO Share Option Scheme which will become effective upon Listing, and such scheme is aimed at rewarding our employees for their contribution to the growth and development of our Group. For details of our Share Option Schemes, please refer to the paragraphs headed "Statutory and General Information – D. Other Information – 1. Post-IPO Share Option Scheme" and "– D. Other Information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

BUSINESS STRATEGIES

We aim to maintain and enhance our leading position in the PRC toy and infant product markets and strengthen our position in toy retailing in Hong Kong, so that we will continue to be the preferred business partner of international brand owners of toys and infant products in the PRC and Hong Kong.

We intend to pursue the following business strategies in order to achieve our overall objectives:

Increasing our penetration of existing sales channels and expanding our geographic coverage to additional cities with high growth potential in the PRC, and to Hong Kong

The 13th Five Year Plan ("**13th FYP**") for 2016-2020 was approved by the National People's Congress in March 2016. One of the key highlights of the 13th FYP is that the "one-child policy" (which was introduced more than 30 years ago) has been abolished and couples are allowed to have two children. An increase in the number of children is expected to have a positive impact on the demand for goods and services catered for child rearing and child development. The 13th FYP has also set 2020 as the target year for doubling the per capita income compared with that of 2010. In addition, the 13th FYP has advocated relaxation of the household registration (戶口) system, which is expected to allow more rural residents to move to urban areas with household registration. The related policy changes in connection with the 13th FYP are expected to bring positive effects to the consumer market (particularly, toys and infant products market) in urban areas.

According to the Euromonitor Report, the sales of traditional toys and games is expected to increase at a CAGR of 5.9% during the period between 2017 and 2021. In particular, the market size of construction toys is expected to outpace that of traditional toys and games, with a CAGR of 16.9% over the period between 2017 and 2021. In addition, demand for infant products is expected to increase gradually when the effect of the two-child policy is realised. Based on such projections, we believe that there are significant opportunities for growth in demands for our toys and infant products in urban areas, including particularly Tier 3 cities. We intend to expand our retail points by leveraging the network of our current distributors as well as by increasing the number of distributors, thereby enabling us to further penetrate into such potential markets.

We believe there is ample room for growth in the number of retail points for toys and infant products in the PRC. We plan to increase the number of our retail points (on a net basis) in the PRC by 44 in the six months ending 31 December 2017 and by 64 in 2018 and 73 in 2019. The expansion costs are planned to be funded by our internal resources and the net proceeds from the Global Offering. We also plan to start in 2017 to look into the feasibility of collaborating with some of our existing distributors or potential distributors for them to operate certified retail shops under our brands of Kidsland and/or Babyland in Tier 3 cities.

Some of our toys have appeals to kidults and adult collectors. We plan to open shops or introduce toys at our shops that will accommodate such growing demands. We believe that Hong Kong is a mature market with customers demanding sophisticated products and exemplary services. We plan to increase the number of our retail points in Hong Kong (on a net basis) by two in the six months ending 31 December 2017 and by one in 2018. The expansion costs are planned to be funded by our internal resources and the net proceeds from the Global Offering.

To enhance the shopping experience of our customers and potential customers and also to strengthen our retail positioning, we plan to open flagship stores in Tier 1 cities, tentatively Beijing and Shanghai. In such connection, we have been in discussion with a potential business partner which has strong retail concept and brand name of long history and good reputation, which is based in the United States, but has not entered into the PRC market. Such potential business partner holds brands of its own and also cooperate with many brand owners of toys and infant and kids-related products. We plan to source greater varieties of branded toys from it or through its connection, and to open three flagship stores under its name in the PRC. We plan to open such first flagship store in the second half of 2018, and two other flagship stores in the first half of 2019. The size (in terms of GFA) of each such flagship store in the PRC is expected to exceed 1,500 sq.m., subject to lease agreement being entered into with potential landlord. The size of such flagship stores is expected to be much larger than our existing retail shop which usually have an average GFA of about 150 to 200 sq.m. each. A larger variety of toys and infant and kids-related products (including those from our existing product portfolio and those to be sourced from or recommended by the said potential business partner) will be offered at such flagship stores. It is our plan to redeploy some of our experienced management staff (who have been working with our single-brand retail shops and/or our multi-brand retail shops) to oversee their opening and operations, but we will also employ additional staff to operate such stores. In connection with the opening of these three flagship stores, approximately HK$19.7 million is planned to be used for store decoration and purchase of equipment and facilities (such as furniture, air-conditioning and fire-fighting systems, ceilings and floorings) and approximately HK$63.8 million is planned to be used for their initial operating costs (such as staff costs, monthly rentals and management fee, inventory purchase and related marketing and promotion activities). We plan to fund the above costs as to approximately HK$12.2 million by our own internal resources and as to approximately HK$71.3 million by the net proceeds from the Global Offering.

For details of our expansion plans, please refer to the paragraph headed "Sales and distribution of our products – our sales and distribution channels – self-operated retail channels – New retail points to be opened under our existing self-operated retail channels" in this section.

Strengthening recognition of our existing brands and enhancing consumer loyalty, and developing products under our existing or new brands

We believe that strong brand image is crucial to the success of our retail business. We intend to deepen our brand image in the minds of customers through continued marketing activities and member management capabilities. In particular, we see opportunities to build brand loyalty among expectant parents before their babies are born. Once they have become our loyal customers, we expect them to come back for more of our products that will suit the needs of their children at different stages of growth. We operate a customer-membership system and as at 30 April 2017, we had about 1.1 million members. For details of our membership programme, please refer to the paragraph headed "Sales and Marketing – Membership programme" in this section. We intend to apply our members' information to analyse consumer shopping behaviours. We plan to direct our marketing and promotion efforts to our members based on the results of our analysis, so that our members will be provided with updated information on our products which may suit their needs at different stage of parenthood and at different stage of growth of their children, thereby enhancing their loyalty to our Kidsland and Babyland brands. Selected group of members receive our invitations from time to time which allow such members to enjoy special discounts or rewards upon spending certain amount at our retail points. We will continue to offer suitable rewards and benefits to attract new members.

We also intend to explore the feasibility of developing products under our Kidsland and Babyland brands. We are exploring opportunities to partner with existing or new brand owners to develop products for children or infants. Based on the external information (such as market intelligence and competitive intelligence) together with internal analysis of our product portfolio and consumer shopping behaviour, we plan to identify any business opportunities with our product offerings. If there is demand for products which are outside our existing product offerings and we are unable to source them from the market, we intend to engage Independent Third Party research companies, design houses and/or manufacturers to work on the research, development and manufacturing (most likely on OEM (i.e. original equipment manufacturer) basis) of such new products. These products, if decided to be launched, may be sold under our existing or new brands. We are also exploring opportunities to create and develop our proprietary mascot or animation characters.

Results from our analysis of the PRC toy market and our product offerings suggest that our existing product offerings may be expanded into smart toys. We intend to partner with an Independent Third Party software company to develop a smart device in toy form tailored for children to provide an educational and entertaining experience. The smart toy is powered by certain proprietary technology enabling it to answer children' questions and adapt to their age, allowing the toy and the children to grow over time. Similar smart toys with different contents and features are available in the market but not within our current product portfolio. Such product is expected to be launched in 2018. Approximately HK$2.3 million is planned to be used for recruiting experienced staff to strengthen our product design and brand management team, approximately HK$34 million for purchasing inventories estimated based on the initial unit price and expected quantity of inventories required, approximately HK$3 million for increasing our research and development capabilities and approximately HK$21.1 million for funding our marketing activities.

We also plan to allocate more resources to sales and marketing activities to promote our Kidsland and Babyland brands and upgrade our store image and visual display.

Opening experience centres

We intend to establish experience centres for families with children, which will include play areas, "Do-it-yourself" areas, and theme areas (featuring different play concepts, for example, drawings, mini-worlds, princess and racing, etc) where children and their family members could enjoy the fun of play. The concept of experience centre comes from our participation in the "Kids Fun Expo" (玩博會) which our Group has attended for seven consecutive years. "Kids Fun Expo" (玩博會) provides a platform for our Group to encourage learning through play by using toys sold or distributed by us. Visitors of "Kids Fun Expo" (玩博會) may experience the toys displayed at our booths featuring different branded products. These experience centres are targeted to be established in prime locations in major shopping malls in the PRC which could attract high foot traffic. Through these experience centres, we plan to obtain additional market intelligence in terms of market trends and preferences, and collect direct feedback from end-users, and enhance our brand recognition by our existing and potential end-users. As the operation of these experience centres aims at enriching children to develop their imagination and creativity through playing of toys, and there is no teaching material or syllabus to be used, no teacher to be employed and no teaching or training activity to be involved, our PRC Legal Advisers are of the view that according to the prevailing PRC laws, these experience centres should not be construed as educational institutions or engaging in preschool education or activities, and no school operating licence is required for the operation of these experience centres from any education administration authority in the PRC, and the operation of these experience centres is not subject to foreign investment restrictions under the Guidance Catalogue of Industries for Foreign Investment (2017) revision (外商投資產業指導目錄(2017年修訂)).

Apart from participating in the "Kids Fun Expo" (玩博會) mentioned above, we also organised mall events (such as pop-up stores) in shopping malls from time to time using similar idea and concept. For details of our marketing activities, please refer to the paragraph headed "Sales and Marketing" (page 172) in this section. Although our Directors and senior management do not have any previous experience in actually operating experience centres in the PRC, they gained related experience through organising the above mall events and activities at the "Kids Fun Expo" (玩博會). We also have been communicating and exchanging ideas on experience centres with our brand owners which have previous or current experience in running experience centres abroad.

- Opening plan – We plan to open an experience centre in Beijing in the first quarter of 2018. It is our plan to open in the PRC two more experience centres in Tier 1 or Tier 2 cities in 2018 and two experience centres in the first half of 2019 in Tier 1 or Tier 2 cities. We have recruited a manager who has over 10 years of experience in operating retail business and is experienced in managing store traffic and staff in large scale retail stores. Our Directors believe that we could leverage his experience in managing large scale retail stores in our daily operation of experience centres.

- Business model – For experience centres, it is expected that we will generate revenue (i) by selling to our visitors toys experienced by them in play areas or theme areas, and there will be designated sales counter located near the exit of each experience centre; (ii) by charging visitors of our experience centres an admission fee; and/or (iii) by charging subleasing or cooperation fee to Independent Third Party operator(s) who may offer food and beverage services at a designated area in each experience centre. Service fees are also charged if we organise events or activities for children on special occasions. The major cost components for operating an experience centre are expected to include rentals from leasing of premises and staff costs.

- Breakeven Point and Investment Payback Point – Based on our analysis of expected profit and cashflow generated by experience centres for the two years from the commencement of operation and different scenarios that could affect the financial performance of experience centres, it is estimated for an experience centre to reach its Breakeven Point for three consecutive months in approximately six months to 12 months, and to reach its Investment Payback Point in approximately 12 months to 18 months, respectively.

- Capital expenditure – Depending on the locations and sizes, our capital expenditures (which primarily relate to decoration, equipment and facilities, and leasing of premises for these centres) that will be used for establishment of an experience centre is approximately HK$4.1 million. Apart from such capital expenditures, opening of experience centres entails additional operating expenses to be incurred, (including remunerations for manpower, additional inventory costs, marketing expenses) and installation and upgrading of information technology systems (including points-of-sale accounting and inventory systems). It is anticipated that the additional operating expenses and the expense for information technology systems installation and upgrading for the fourth quarter of 2017, the year of 2018 and 2019 will be approximately Nil, HK$8.1 million and HK$17.8 million, respectively. We plan to fund the above expenses by our internal resources and the net proceeds from the Global Offering.

We will need to set up new subsidiaries in accordance with the PRC Company Law, or expand the scope of business of our current subsidiaries in accordance with the PRC Company Law and Administrative Regulations on Registration of Companies (公司登記管理條例), to open and operate the experience centres. Operation of the experience centres will also be generally subject to relevant PRC national and local laws and regulations concerning environment, safety and public health, including the Law on Fire Prevention (消防法) and Administrative Measures on Public Health in Public Premises (公共場所衛生管理辦法). In particular, these law and measures require that, either the owners of the premises we lease to establish the experience centres, or our relevant subsidiaries operating the centres, shall procure the consent or license from, or submit filings with, the local fire services departments and public health bureaus, in respect of the construction, refurbishment/decoration of the premises.

We plan to set up new subsidiaries in accordance with the PRC Company Law to open and operate the experience centres. We also plan to obtain relevant licences and permits as mentioned above prior to the operation of the experience centres. In addition, we plan to establish internal guidelines in relation to the operation of experience centres.

Building our big data analysis capabilities

Data collected and generated from our retail and wholesale businesses may potentially provide significant value to us, brand owners and our end-customers. We plan to further strengthen our big data analysis and research capabilities to support our sales and marketing strategies and to improve our customer services. For example, we could analyse the frequency of visits and buying preferences of our end-users. By following their visits and spending habits, we can profile our end-users based on purchasing power and interests, such as, average spending per customer and average spending of products for each brand. With such information, our promotional activities can be tailored for a specific brand or line of products and we can plan the optimal inventory level for each retail point ahead. We also plan to improve (subject to compliance with the relevant privacy protection regime) and upgrade our information technology systems across our entire retail and wholesale network.

We expect to use the results of these initiatives to gain greater insight into the toy and infant product markets.

Pursuing strategic alliances and acquisitions selectively when opportunities arise

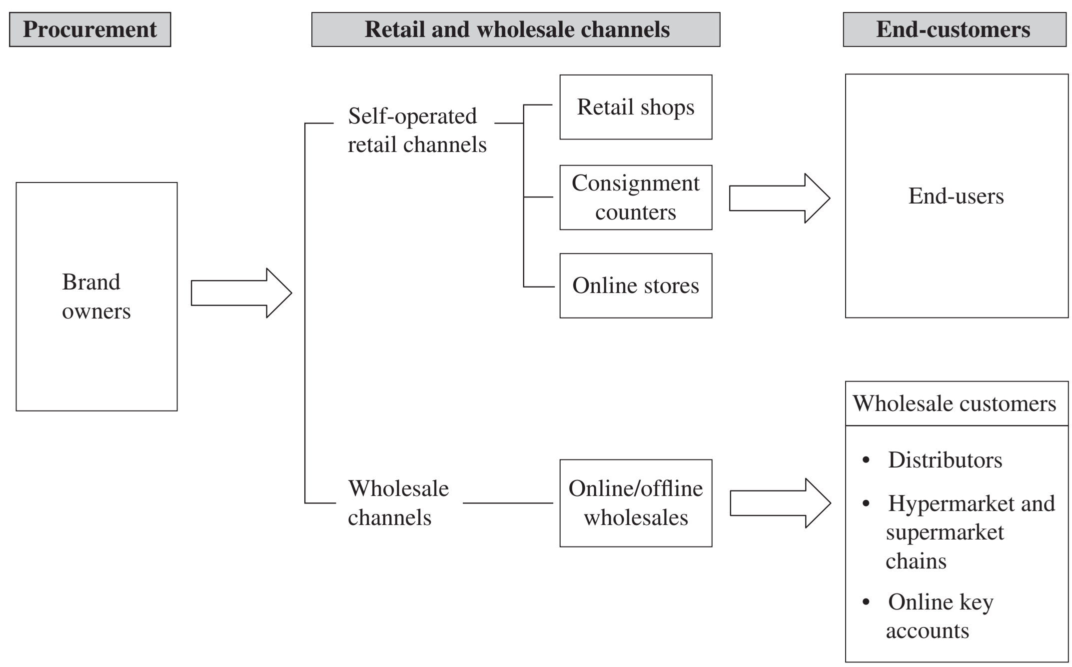
We will pursue selectively strategic alliances and acquisitions of businesses and assets that will complement or expand our existing product offerings and revenue streams. According to the Euromonitor Report, the toy retail market in the PRC is highly fragmented with the five largest toy retailers accounting for approximately 33% of market share in terms of retail sales value in 2016. We lead the toy retail market with approximately 14% market share in terms of retail sales value in 2016. We believe there is an opportunity for consolidation in the toy retail market. Targets of our strategic alliance and acquisitions may include reputable retailers or service providers targeting the same customer group.

Our management team will carefully evaluate any acquisition, investment or strategic cooperation opportunities that may arise from time to time, based on strategic fit and the ability to create value for our Company and shareholders. As at the Latest Practicable Date, we had not identified any suitable acquisition targets.

OUR BUSINESS MODEL

Our Group is principally engaged in the retail and wholesale of mainly toys and infant products in the PRC and is engaged in the retail of toys in Hong Kong. Save for Dongguan Silverlit, all of our brand owners are Independent Third Parties, which are multi-national corporations that own various international brands of toys or infant products.

The following depicts our business model:



According to the Euromonitor Report, we are the largest toy retailer in the PRC in terms of retail sales value in 2016. We are also an infant products retailer in the PRC. As at 30 April 2017, we sourced a wide range of toys and infant products of 26 international brands from our 23 brand owners. These products mainly include construction toys, wooden toys, electronic toys, action figures, die-cast vehicles, baby strollers, baby high chairs, infant car seats, nursery products and apparel and accessories for babies and infants.

We are not engaged in any manufacturing activities. Some of our toys and infant products are manufactured by brand owners in the PRC while some are imported from the manufacturing base or trading arms of our brand owners. Our business development team communicates regularly with our existing brand owners to understand and identify the latest toy and infant product trends. They also search for new brand owners in order to increase our product offerings to our end-customers. Our relationship with our brand owners is regulated by the distributorship agreements between us and our brand owners. In accordance with the distributorship agreements, we place purchase orders for toys and infant products with our brand owners based on our projections of various factors, including market demand and our business and expansion plans.

We make retail sales through our self-operated retail channels, comprising (i) retail shops including shops under our own brands, namely Kidsland stores and Babyland stores, as well as single branded stores under a specific brand; (ii) consignment counters in department stores and a renowned global toy store chain; and (iii) online stores on third party-operated online platforms, from which end-users, who are individuals, can pick and choose their favourite items. Our Group is also engaged in the wholesale of toys and infant products through our wholesale channels, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC. Distributors sell to end-users through their own online and/or offline retail shops and/or via third party retailers. Hypermarket and supermarket chains sell to end-users through their physical retail shops while online key accounts sell through their online platforms. We are not engaged in the wholesale of toys and infant products in Hong Kong. Our retail sales of toys in Hong Kong only started in 2016. As at the Latest Practicable Date, we had two retail shops in Hong Kong.

OUR PRODUCT OFFERINGS

We procure our toys and infant products from brand owners which are generally owners of international toy brands and infant product brands based in Europe, Japan and the U.S.. We adjust our product mix in response to the market trend and customers' demand.

The following table sets forth our portfolio of major brands:

Product category	**Brand owner**	**Brand**^(Note)^	**Major products we procure**
Toys	The LEGO Group	LEGO	Bricks, building pieces and minifigures
	Dongguan Silverlit	Silverlit	Remote controlled toys and electronic toys
	Schleich GmbH	Schleich	Hand-painted toy figurines and accessories
	BRIO AB	BRIO	Wooden toys
	Sieper GmbH	siku	Die-cast vehicles
	Paka Preschool Products Limited	奇智奇思 K's Kids	Developmental toys, activity toys and dolls
	Ravensburger Spieleverlag GmbH		2D/3D puzzles/games
	Kids II Far East Limited	Kids II	Baby and infant products
	Crayola LLC	Crayola	Coloured pencils and markers
	Depesche Vertrieb GmbH & Co. KG	TOP Model by Depesche	Drawing books and stationery products

Product category	Brand owner	Brand(Note)	Major products we procure
Infant products	Artsana S.p.A	chicco	Baby and infant products
	Aprica (Shanghai) Trading Co., Ltd	Aprica	Baby and infant products
	Helen of Troy Commercial Offshore de Macau Ltda	OXO tot	Baby and toddler products
	Sterntaler GmbH	Sterntaler	Toys and nursery products

Note: Products under the brands shown above are sold and distributed in the PRC; LEGO products are also sold in Hong Kong.

Toys

Children grow up and learn through play experience. Toys are tools that children use in play. Some of them are gender- and/or age-segmented. Generally, boys' toys include action figures, construction toys, vehicles and planes; girls' toys include toy kitchens, paint and sparkles, princess items and dolls. Games, puzzles, arts and crafts items and electronic products are generally suitable for different gender and age groups. They can be divided into several groups, for physical or muscle development, for sensory (touch, sight, sound, taste, smell) development, for make-believe and social development, and for creative and intellectual development. Sometimes, toys fit into more than one category.

Toys that we distribute broadly include construction toys, wooden toys, electronic toys, action figures, and die-cast vehicles. We introduce new toys from time to time having regard to our brand owners' timetable of launching new products.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our revenue attributable to toys amounted to approximately HK$1,208.7 million, HK$1,432.1 million, HK$1,475.5 million and HK$513.7 million, respectively, representing approximately 91.2%, 91.7%, 90.1% and 90.6%, respectively, of our revenue for the corresponding periods.

Infant products

Infant products which we distribute broadly include baby strollers, infant high chairs, baby car seats, nursery products and apparel and accessories for babies and infants. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our revenue attributable to infant products amounted to approximately HK$115.9 million, HK$129.2 million, HK$162.9 million and HK$53.0 million, respectively, representing approximately 8.8%, 8.3%, 9.9% and 9.4%, respectively, of our revenue for the corresponding periods.

Breakdown of revenue by product category

The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million (unaudited)*	*%*	*HK$ million*	*%*
Toys	1,208.7	91.2	1,432.1	91.7	1,475.5	90.1	455.2	91.2	513.7	90.6
Infant products	115.9	8.8	129.2	8.3	162.9	9.9	43.8	8.8	53.0	9.4
Total	1,324.6	100.0	1,561.3	100.0	1,638.4	100.0	499.0	100.0	566.7	100.0

For the three years ended 31 December 2016, our revenue attributable to toys and infant products increased at a CAGR of 10.5% and 18.5% respectively, mainly due to the increase in the number of retail points, the increase in the number of brands distributed by our Group and the increasing demand for the products from some key brands we worked with.

Breakdown of revenue by branded products

As at 30 April 2017, our brand portfolio consisted of 26 international brands, including LEGO, Silverlit, Chicco, Siku, Schleich, Brio, K's Kids and Aprica. These branded products were sourced from 23 brand owners. The following table sets forth a breakdown of our revenue by branded products for the periods indicated:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million (unaudited)*	*%*	*HK$ million*	*%*
LEGO products	880.8	66.5	1,002.7	64.2	1,028.0	62.7	321.6	64.3	347.2	61.2
Brand owner B's products	95.2	7.2	85.5	5.5	83.2	5.1	22.4	4.5	35.3	6.2
Silverlit products	82.6	6.2	143.1	9.2	148.0	9.0	47.0	9.4	48.3	8.5
Chicco products	60.7	4.6	56.3	3.6	48.8	3.0	15.4	3.1	14.6	2.6
Siku products	58.0	4.4	60.7	3.9	58.4	3.6	18.4	3.7	20.0	3.5
Schleich products	40.1	3.0	46.9	3.0	43.1	2.6	14.6	2.9	13.9	2.5
Others	107.2	8.1	166.1	10.6	228.9	14.0	59.6	12.1	87.4	15.5
Total	1,324.6	100.0	1,561.3	100.0	1,638.4	100.0	499.0	100.0	566.7	100.0

Selection policy

When selecting brands and products for our end-customers, we consider various factors, including brand reputation, product quality, innovation, safety and market trends. We continue to look for new opportunities to broaden our product offerings, including introduction of products of niche brands.

Pricing and nation-wide recommended retail prices

We set our prices after having taken into account various factors including indicative price range (if any) as recommended by (or after consultation with) our brand owners, expected popularity, market trends, our marketing and distribution costs, and prices of similar products offered in the market.

The following table sets forth the broad retail price range by product category at which we sell to end-users during the Track Record Period:

Product category	**Price range**
	HK$
Toys	18 to 4,999
Infant products	10 to 5,980

Pricing strategy for our distributors

All of our distributors are generally required to sell our products at a price within a range of not more than, nor less than 5% of the nation-wide recommended retail prices. Should any of our distributors wish to sell our products beyond the nation-wide recommended pricing range, they need to obtain prior written consent from us. From time to time, we provide pricing guidance on selected products which we offer promotional discounts. Our distributors are required to strictly adhere to such pricing guidance. If we come to notice or receive any complaints about their deviation from the recommended pricing range, we will conduct checking and (if required) take action against defaulting distributors.

We generally allow our online distributors to have greater flexibility in setting the retail prices, so long as they follow the pricing strategies of different brands formulated by us from time to time. If an online distributor wishes to sell products at a discount higher than the generally allowed rate, it has to obtain our prior written consent. During the Track Record Period, some of our online distributors applied to us for permission to sell beyond the recommended pricing range.

For online distributors, we have engaged an Independent Third Party agency to monitor the retail prices offered and to check whether their retail prices deviate from our recommended pricing range or there is potential intellectual property infringement. During the Track Record Period, we were aware of large quantities of counterfeit products sold through online platforms. For details, please refer to the paragraph headed "Intellectual Property Rights – Counterfeit products" in this section. Such Independent Third Party agency generally provides us with reports on a regular basis. For offline distributors, we generally do not conduct price checks as they are unlikely to undercut online distributors, given their relatively high operating costs.

If any of our distributors deviates from our pricing policy and fails to take follow-up actions after our repeated requests, we will suspend supply of products. During the Track Record Period, we were not aware of any of our distributors selling beyond the recommended pricing range without our prior written consent.

Pricing strategy for our hypermarket and supermarket chains

In general, retail prices of our products are determined by our hypermarket and supermarket chains and us after taking into accounts various factors including the purchase cost, taxes, transportation cost, insurance cost and other expenses.

Pricing strategy for our online key accounts

In general, retail prices of our products should not be higher than the lowest selling prices offered by other retailers.

Product quality, return and warranties

Generally, toys and infant products (including (i) children bicycles, tricycles, strollers, baby walking frames and other toy cars or bicycles, (ii) electric toys, (iii) plastic toys, (iv) metal toys, (v) catapulting toys, (vi) doll toys, and (vii) restraining devices for child occupants of power-driven vehicles including child car seats) sold in the PRC are required to comply with the safety and quality standards prescribed under the China Compulsory Certification (CCC) (中國強制性認證) administered by CNCA. Other toys such as soft toys, wooden toys, toys made of card board paper or paper materials are not subject to the China Compulsory Certification (CCC). Our brand owners are generally responsible for conducting quality and safety tests throughout the production process, before delivering the finished products to us. We require all of our brand owners to obtain the relevant certifications in relation to quality and safety standard of the products supplied to us for sale and distribution in the PRC. In order to demonstrate that the products distributed by us meet the quality and safety standards under the China Compulsory Certification (CCC), all the relevant products are required to bear the "CCC" mark as proof of compliance with the applicable standards of the PRC.

During the Track Record Period, we did not experience any material claims from our end-customers in respect of the products distributed or sold by us.

Return policy for end-users of our self-operated retail channels

In general, once our products are sold to end-users of our retail points, we accept product exchange or product return for cash within seven days (or, where applicable, product exchange within 15 days) of purchase. Some of defective products returned to us will subsequently be returned to the brand owners, after identifying and verifying the defects.

Although we are not engaged in manufacturing activities, we have one repair centre which is located in Beijing. Types of repair services offered by us vary from product to product. For certain products which we distribute, we offer repair services (inclusive of replacement parts), which are generally free for up to 12 months from the date of purchase (or delivery) for repair of defects which are not caused by the end-users. After the expiry of the warranty period, we generally continue to provide free repair services, but will charge a fee for any replacement parts. For some products that are beyond repair, end-users are offered an option to purchase a new product at a 50% discount to the retail price. The delivery of the affected products is arranged by the end-users at their own cost, and we deliver the repaired products to the end-users usually at our own cost.

We operate a customer service hotline which allows our end-users to make enquiries about our products and policies, and to express their feedback on the quality of our service. Some brand owners operate their own customer service hotlines, which allow end-users of their products to contact them direct for any enquiries or request for after sales services.

Return policy for our wholesale customers

In general, once our products are inspected and accepted by our wholesale customers at the time of delivery, we do not allow refund, return or cancellation. For distributors, in general, if our products are found to be defective after delivery of our products, we assess whether such products are repairable. We only accept product exchange if products are not repairable. For further details, please refer to the paragraph headed "Sales and distribution of our products – our sales and distribution channels – Wholesale channels" in this section.

As for the end-users who purchase our products through our wholesale customers, they can also enjoy the benefits of using our customer service hotline and repair centre services.

Return of our products during the Track Record Period

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our total value of sales return in respect of toys amounted to approximately HK$26.8 million, HK$30.0 million, HK$26.2 million and HK$8.1 million, respectively, representing approximately 2.2%, 2.0%, 1.7% and 1.5%, respectively, of sales of toys for the corresponding periods. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our total value of sales return in respect of infant products amounted to approximately HK$6.5 million, HK$7.8 million, HK$7.5 million and HK$2.5 million, respectively, representing approximately 5.2%, 5.6%, 4.4% and 4.4%, respectively, of sales of infant products for the corresponding periods.

During the Track Record Period, we did not make (and, to our best knowledge and belief, our brand owners did not make) any product recalls in respect of the products distributed or sold by us.

Seasonality

Our sales and results of operations are subject to seasonality. In general, we record higher sales volume and revenue when approaching holiday seasons, for instance, Children's Day, Chinese New Year, Christmas and New Year. In recent years, we also recorded higher revenue growth for our online stores on the Singles' Day in the PRC. To capture the sales opportunities presented by various holidays, we typically carry out more marketing and promotional activities in the second half of the year. For the same reasons, we generally have higher balances of inventories in the second half of the year to meet the expected greater demands for our products during the period.

OUR BRAND OWNERS

We procure our toys and infant products from our brand owners which are generally owners of international toy brands and infant product brands based in Europe, Japan and the U.S.. Over the years, we have built a diversified brand owner base. As at 30 April 2017, we sourced our products under 26 international toy and infant product brands from 23 brand owners.

Our five largest brand owners

The following table sets forth our five largest brand owners, types of products supplied by them, number of years of business relationship with us, revenue contribution of brand owner to our Group and their background during the Track Record Period:

FY2014

Ranking	Five largest brand owners for FY2014	Types of products supplied	No. of years of business relationship with us	Revenue contribution *(HK$ million)*	Background of the brand owner
1.	The LEGO Group	Bricks, building pieces and minifigures	16	880.8	Toy manufacturer, the ultimate holding company is a privately held company with headquarters based in Denmark
2.	Dongguan Silverlit	Remote controlled toys and electronic toys	3	82.6	Toy manufacturer, a connected person of our Company

Ranking	Five largest brand owners for FY2014	Types of products supplied	No. of years of business relationship with us	Revenue contribution *(HK$ million)*	Background of the brand owner
3.	Brand owner B	Action figures	5	95.2	Toy manufacturer, the ultimate shareholder of which is a publicly listed company with headquarters in Japan
4.	Artsana S.P.A.	Baby and infant products	15	60.7	Manufacturer of baby care, health and beauty care products with headquarters in Italy
5.	Schleich GmbH	Hand-painted toy figurines and accessories	5	40.1	Toy manufacturer, a private company, with headquarters in Germany

FY2015

Ranking	Five largest brand owners for FY2015	Types of products supplied	No. of years of business relationship with us	Revenue contribution *(HK$ million)*	Background of the brand owner
1.	The LEGO Group	Bricks, building pieces and minifigures	16	1,002.7	Toy manufacturer, the ultimate holding company is a privately held company with headquarters based in Denmark
2.	Brand owner B	Action figures	5	85.5	Toy manufacturer, the ultimate shareholder of which is a publicly listed company with headquarters in Japan
3.	Dongguan Silverlit	Remote controlled toys and electronic toys	3	143.1	Toy manufacturer, a connected person of our Company
4.	Sieper GmbH	Die-cast vehicles	8	60.7	Toy manufacturer, a private company, with headquarters in Germany
5.	Artsana S.P.A.	Baby and infant products	15	56.3	Manufacturer of baby care, health and beauty care products with headquarters in Italy

FY2016

Ranking	Five largest brand owners for FY2016	Types of products supplied	No. of years of business relationship with us	Revenue contribution *(HK$ million)*	Background of the brand owner
1.	The LEGO Group	Bricks, building pieces and minifigures	16	1,028.0	Toy manufacturer, the ultimate holding company is a privately held company with headquarters based in Denmark
2.	Dongguan Silverlit	Remote controlled toys and electronic toys	3	148.0	Toy manufacturer, a connected person of our Company
3.	Brand owner B	Action figures	5	83.2	Toy manufacturer, the ultimate shareholder of which is a publicly listed company with headquarters in Japan
4.	Brand owner E	Animal character toys	2	43.1	Toy manufacturer, a private company, with headquarters in Japan
5.	Artsana S.P.A	Baby and infant products	15	48.8	Manufacturer of baby care, health and beauty care products with headquarters in Italy

Four months ended 30 April 2017

Ranking	Five largest brand owners for the four months ended 30 April 2017	Types of products supplied	No. of years of business relationship with us	Revenue contribution *(HK$ million)*	Background of the brand owner
1.	The LEGO Group	Bricks, building pieces and minifigures	16	347.2	Toy manufacturer, the ultimate holding company is a privately held company with headquarters based in Denmark
2.	Dongguan Silverlit	Remote controlled toys and electronic toys	3	48.3	Toy manufacturer, a connected person of our Company
3.	Brand owner B	Action figures	5	35.3	Toy manufacturer, the ultimate shareholder of which is a publicly listed company with headquarters in Japan
4.	Brand owner E	Animal character toys	2	16.9	Toy manufacturer, a private company with headquarters in Japan
5.	Paka Preschool Products Limited	Developmental toys, activity toys and dolls	5	8.9	Toy manufacturer, a private company with headquarters in Hong Kong

In respect of all the above five largest brand owners during the Track Record Period, save for the LEGO Group, we enjoyed exclusivity in the distribution of substantially all products authorised under the respective distributorship agreements in respect of particular or all channels in the PRC for these brand owners. As to the exclusivity rights granted by the LEGO Group to us for distribution of LEGO products in the PRC, please refer to the paragraph headed "Our brand owners – Our relationship with the LEGO Group" in this section.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, purchases from our largest brand owner accounted for approximately 63.2%, 67.5%, 66.2% and 64.6%, respectively, of our total purchases; and purchases from our five largest brand owners accounted for approximately 88.4%, 87.0%, 84.1% and 87.4%, respectively, of our total purchases. The credit terms offered by our major brand owners to us typically ranged from 60 days to 90 days by telegraphic transfer.

We have established stable and strong relationships with our brand owners and, as a result, we have not encountered any material disruption to supplies of our products during the Track Record Period and up to the Latest Practicable Date. We have not experienced and do not envisage that we will experience any material difficulties in sourcing toys and infant products from our brand owners. We generally do not enter into long term agreements with our brand owners and terms of our distributorship agreements typically range from two years to five years. As at 30 April 2017, the business relationships with our five largest brand owners ranged from two years to 16 years. For risks relating to our brand owners, please refer to the section headed "Risk Factors – Risks Relating to our Business – Distributorship agreements with our brand owners generally have a term of two years to five years" in this prospectus.

None of our Directors or their respective close associates or any of our Shareholder (who to the knowledge of our Directors owned more than 5% of the issued share capital) had any interest in the brand owners from whom we sourced our products during the Track Record Period.

Selection policy in relation to brand owners

As at 31 August 2017, our brand portfolio consisted of 27 international brands, including LEGO, Silverlit, Chicco, Siku, Schleich, K's Kids and Aprica and these branded products were sourced from 24 brand owners. We believe we have well-established relationships with our brand owners. As at 30 April 2017, we sourced our products from 23 brand owners and out of these 23 brand owners, two have been our brand owners for more than 15 years, three have been our brand owners for more than five years and 11 have been our brand owners for more than three years.

We select our brand owners having regard to factors such as market trend, lines of products which we plan to expand, lines of products already supplied by our existing brand owners, quality of products supplied (e.g. whether the China Compulsory Certification (CCC) is obtained for their products), reputation, reliability and also their willingness to treat us as business partner to exploit the market together. In recent years, because of our established track record and reputation in the PRC, we have been approached by brand owners to act as their authorised distributor in the PRC. If we consider there is a potential to act as distributor of a brand owner, it is our general practice to prepare a business plan for such potential brand owner, with a view to developing the PRC market together on a medium-term basis (i.e. over a span of three years). To the extent possible, we will ask the brand owner to appoint us as its exclusive distributor for its products (or a particular line of products) in the PRC for a specified term.

During the Track Record Period, we did not continue the business relationship nor did we renew the distributorship agreements upon expiration with five brand owners, as the sales targets stipulated in the respective distributorship agreements could not be achieved due to insufficient market demand for such products.

Our distributorship agreements

The following table sets forth a breakdown of our distributorship agreements that were entered into with brand owners for the periods indicated:

Distributorship agreements	As at/for the year ended 31 December 2014	2015	2016	As at/for the four months ended 30 April 2017	As at/for the four months ended 31 August 2017
At the beginning of the period	17	23	21	23	23
Addition of new distributorship agreements *(Note 1)*	7	–	3	1	2
Termination of business relationship	(1)	(2)	(1)	(1)	(1)
Net increase/(decrease) in the number of distributorship agreements	6	(2)	2	0	1
At the end of the period	23	21	23	23	24 *(Note 2)*

Notes:

1. The number of "new distributorship agreement(s)" added during a year/period is based on the date of transaction first being entered into with a new brand owner(s) which signed distributorship agreement(s) with our Group.

2. Under these 24 distributorship agreements, our Group has been given right to sell and distribute toys and infant products of 27 international brands.

The above table illustrates that our Group has the ability to include new brands in our brand portfolio which is achieved through identifying branded toys and infant products which have demands in the PRC, and by entering into distributorship agreements with the respective brand owners, most of which are reputable. Going forward, we will explore opportunities to cooperate with new brand owners suitable for our toys and infant products portfolio.

The following table sets forth a breakdown of our distributorship agreements that were outstanding as at 31 August 2017 based on their maturity profile:

	Number of distributorship agreement	% of Total
Expired or to expire on or before 31 December 2017	7	29.2
To expire after 31 December 2017 but prior to 31 December 2018	10	41.6
To expire after 31 December 2018 *(Note)*	7	29.2
Total	24	100.0

Note: One distributorship agreement which expired on 31 December 2016 was automatically renewed until terminated by either party by giving the other party a written termination notice of at least six months. As at the Latest Practicable Date, we had not given nor received a termination notice to terminate the distributorship agreement.

Of the distributorship agreements that will expire on or before 31 December 2017, as at the Latest Practicable Date, we were in negotiation with all of the relevant brand owners.

Terms of distributorship agreements with our brand owners

Our relationship with our brand owners is regulated by the distributorship agreements entered into between us and our brand owners. The terms of the agreements with different brand owners vary to a large extent. However, major terms of a typical distributorship agreement with our brand owners include the following:

- Duration – The majority of our distributorship agreement has a term of two years to five years; some of such agreements are automatically renewed upon expiration.

- Non-competition (prohibiting us to distribute competing products) – Some of our distributorship agreements require us to inform and seek consent from the relevant brand owners if we plan to supply (or actually supply) any products which compete with or of similar categories as those which we are authorised to distribute pursuant to the relevant distributorship agreements. Due to there being vast categories of toys, products may be similar in various aspects such as design, shape and specification. As such, whether certain products are considered to be potentially competitive with existing products of our Group will practically be determined on a case by case basis. As a matter of practice to ensure compliance with existing distributorship agreements, our Group would consult the relevant existing brand owners at an early stage should our Group have the intention to represent potentially competitive products, by seeking the view of existing brand owners on their perception of the competitiveness of the products concerned. Should any potential new product be considered to be competitive with existing products of our brand owners, our Group would follow the requirements of the distributorship agreements to seek the necessary consents. The territorial scope of such non-competition requirement also differs with different brand owners. In such connection, it is our general policy not to act as new distributors of products which directly compete with or of similar categories as those of existing brand owners.

We have internal policy to assess the background and product offerings of each new brand owner before the entering into of a distributorship agreement to ensure that we comply with the non-competition clause of distributorship agreements with other brand owners. Before entering into a new distributorship agreement, our marketing director and category manager will first identify the target customers and relevant category of the products, such as wooden toys, car toys, plush toys, etc., to ascertain whether there is any conflict with the products under the existing distributorship agreements. Should there be any conflicts, our marketing director and category manager will, together with our general manager and third party lawyer, examine the existing distributorship agreements to identify the relevant non-competition clauses (if any). We will then consult the existing brand owners and seek for their prior consent in situations where there are applicable non-competition clauses in the existing distributorship agreements. During the Track Record Period, we did not receive any complaints from any of our brand owners about our breach of non-competition clause of the distributorship agreements.

- Minimum purchase commitment – Under some distributorship agreements, we are required to purchase a specified minimum purchase amount for a specified period of time. If we are unable to meet such minimum purchase target or an agreed percentage of the minimum purchase target, the brand owner is entitled to terminate the distributorship agreement or not to renew distributorship agreement with us.

- Sales target – Under some distributorship agreements, we are required to sell a specified minimum sales for a specified period of time. If we are unable to meet such minimum sales target, the brand owner is entitled to terminate the distributorship agreement.

- Sales target incentive or rebate – Under some distributorship agreements, we are offered sales rebates from our brand owners ranging from 1% to 10% of the annual purchase amounts, which are paid in the form of cash or marketing expenses.

- Pricing basis of our products and price adjustment provisions – Some brand owners specify the recommended retail prices in the distributorship agreements and have the right to adjust the recommended retail prices at any time.

- Promotion and advertising – If a brand owner does not establish its own management or office in the PRC, we are generally responsible for the promotional activities and marketing campaigns in respect of the relevant products that we source from it. Otherwise, promotional activities and marketing campaigns are usually organised on joint basis, or by us after consultation with the brand owners. If a brand owner runs its own promotional activities or marketing campaigns, we will render the necessary assistance to their implementation.

- Delivery and shipping costs – Provisions concerning delivery and shipping costs vary: some brand owners are responsible for the costs of shipping and delivery of products to our distribution centres, and for some other brand owners, we will bear the shipping and delivery costs.

- Payment terms – We generally have a credit period of 60 days to 90 days from the date of delivery. Settlement currencies are usually in US dollars, Euros, Hong Kong dollars or RMB.

- Return and exchange policy – If any product delivered by a brand owner to us has manufacturing defects, we may get a refund or return and exchange such products within a specified period of time from the date of delivery.

- Repurchase policy – Under some distributorship agreements, after expiry or earlier termination of the agreement, brand owners have the right to repurchase any unsold products, and if they do not do so, we have the right to continue to sell the unsold products which they do not repurchase.

- Intellectual property rights – Brand owners generally give us licence(s) to use certain intellectual property rights in connection with the sales, promotion, marketing, advertising and distribution of their respective products, provided that we comply with the intellectual property guidelines imposed by our brand owners. If we are unable to comply with the guidelines, the brand owner is entitled to terminate the distributorship agreement.

  During the Track Record Period, none of distributorship agreements were terminated due to our failure to comply with the intellectual property guidelines.

The LEGO Group is our largest brand owner

During the Track Record Period, the LEGO Group was our largest brand owner. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, purchases from the LEGO Group represented approximately 63.2%, 67.5%, 66.2% and 64.6%, respectively, of our total purchases.

Based on past experience, our Directors believe that the factors usually considered by the LEGO Group before appointing a company to be its business partner or distributor include the following:

- ability to comply with the LEGO Group's code of conduct, which covers various areas ranging from human rights, environmental protection, social, employment, health and safety, to corporate governance;

- having proven track records with international brand owners;

- capability to provide unique value to the LEGO Group with certain strategic importance or significant business potential; and

- quality of services and/or efficiency as compared with the existing mode of operations.

In the mid- and late 1990s, LEGO products were sold and distributed in China by the toys division of The East Asiatic Company (China) Limited ("**EAC China**", a wholly-owned subsidiary of Santa Fe Group A/S which is listed on NASDAQ Copenhagen A/S.) Ms. Zhong then served as the national business manager of such toys division. Ms. Zhong confirmed that due to changes in the business strategies of EAC China in the late 1990s, the LEGO Group needed to identify and appoint a new distributor of its products for the PRC market. Through the introduction of Ms. Zhong, the LEGO Group agreed to enter into distributorship agreement regarding its products for the PRC market with our Group starting from 2001.

According to the Euromonitor Report, the LEGO Group is a world renowned manufacturer of construction toys for people of different ages. Its ultimate holding company is a privately held company with headquarters based in Denmark. From 2001 to 2016, we entered into various distributorship agreements with members of the LEGO Group, pursuant to which we had the exclusive distribution right to sell and distribute LEGO products (excluding LEGO educational products, products manufactured under licence from the LEGO Group, products manufactured within electronic publishing and products produced for exclusive sale in LEGO shops or LEGO family parks, LEGO education/afterschool centres, LEGO clubs or the internet) in various distribution channels in the PRC, except for (i) the online channel; and (ii) the right to sell LEGO products to a few of our wholesale customers which have been key accounts of the LEGO Group. From 2013 to 2015, we have been granted the right to sell and distribute certain designated LEGO products in all of our retail and wholesale channels in the PRC. In particular, we were exclusive in respect of our self-operated retail channels (via retail shops and department stores) and in respect of our wholesale channel (via distributors).

Our relationship with the LEGO Group

With reference to LEGO's past annual reports, in recent years, China has been one of the fastest growing markets of the LEGO Group's products. In order to deepen its presence in Asia, a manufacturing facility of the LEGO Group was constructed in Zhejiang province, China, which commenced production in 2016. It is our Directors' understanding that the LEGO Group reviewed its overall strategy for developing different distribution channels in China. As a conclusion of such review, the LEGO Group changed its sales and marketing strategy at the end of 2015 when we were in negotiation with the LEGO Group in respect of renewal of the distributorship agreement which expired on 31 December 2015. Consequently, distribution right of LEGO products in the PRC was granted by the LEGO Group according to distribution channels as from 2016. While the LEGO Group continued to grant us an exclusive right to distribute its products in certain distribution channels (as described further below) for 2016, the 2016 LEGO Agreement allows the LEGO Group to retain flexibility as from 2017 for other possible distribution arrangements. So far as we are aware, after having made all reasonable enquiries with the LEGO Group, the above change in sales and marketing strategy is not relating to our performance. Accordingly, in February 2016, we entered into the 2016 LEGO Agreement with the LEGO Group pursuant to which,

- in 2016, (i) in respect of our self-operated retail channels, we were (a) a national key account of the LEGO Group in distribution via retail shops (contingent on performance criteria), hence we were no longer exclusive in such channel; (b) exclusive in distribution via LEGO Certified Store; (c) exclusive in distribution via consignment counters in department stores (contingent on performance criteria); (d) granted the right to continue operating our online stores on a non-exclusive basis (contingent on performance criteria); and (ii) in respect of our wholesale channels, we were (a) exclusive in distribution via distributors; (b) granted the rights to continue distributing via hypermarket and supermarket chains and online key accounts on a non-exclusive basis.

- in 2017, we remained to be exclusive in distribution via consignment counters in department stores (contingent on performance criteria). We can continue to sell and distribute LEGO products through other retail and wholesale channels but we do not have exclusivity in these channels.

  The LEGO Group has the right to cooperate with other business partners in the wholesale channel and/or to operate LCS. To the best of our knowledge and belief, as at the Latest Practicable Date, there were five LCS in other cities of the PRC not operated by us. For further details of LCS, please refer to the paragraph headed "Our Brand Owners – Our relationship with the LEGO Group – Single-brand retail shops – LEGO brand stores and LEGO Certified Stores" in this section.

- we were granted the right to distribute over 20 lines of LEGO products which do not include LEGO educational products, products manufactured under licence from the LEGO Group, products manufactured within electronic publishing such as but not limited to software, films and videos and products produced for exclusive sale in LEGO shops or LEGO family parks, LEGO education/afterschool centres, LEGO clubs or the internet. We may not market or actively sell LEGO products supplied by the LEGO Group to educational institutions inside and outside the PRC. Sale to duty free shops and to international/domestic airlines are also expressly excluded from the 2016 LEGO Agreement.

Prior to the entering into of the 2016 LEGO Agreement, under the distributorship agreement for 2013-2015, we were not granted the exclusive right to sell LEGO products on the online channel and were not granted the right to sell LEGO products to a few of our wholesale customers which have been key accounts of the LEGO Group. The following table summarises the changes in exclusivity of our Group's distribution rights on LEGO products between 2013 and 2017:

	2013-2015	**2016**	**2017**
Self-operated retail channels *(Notes 1 and 2)*			
– Retail shops	√	x	x
• LEGO brand store/LEGO Certified Stores *(Note 3)*	√	√	x
– Consignment counters	√	√	√
– Online stores	x	x	x
Wholesale channels *(Notes 1 and 2)*			
– Online/offline wholesale			
• Distributors	√	√	x
• Hypermarket and supermarket chains	x	x	x
• Online key accounts	x	x	x

Notes:

(1) the sign "√" denotes exclusive distribution right

(2) the sign "x" denotes no exclusive distribution right

(3) We have the right to operate an agreed number of LCS in Hong Kong for a period of three years from the store opening date on an exclusive basis. For details, please refer to the paragraph headed "Our Brand Owners – Our relationship with the LEGO Group – Single-brand retail shops – LEGO brand stores and LEGO certified stores" in this section.

In respect of the changes in the retail channel exclusivity, our Directors consider that the introduction of LCS will bring competition to our business in our self-operated retail channel. As at the Latest Practicable Date, we operated three LCS in the PRC. As aforementioned, as at the Latest Practicable Date, there were five LCS not operated by us in the PRC. The LEGO Group has the right to cooperate with other business partners to open more LCS in the PRC from 2017.

In respect of the changes in the wholesale channel exclusivity, given the LEGO Group has the right to directly sell to other distributors, our Directors consider that it will introduce more competition to our wholesale business, and in addition, some of these distributors can in fact be retailers which may in turn bring competition to our retail business. Should the LEGO Group expand its wholesale network and/or distributors business in the future, it might have an impact on both our wholesale and retail businesses. Notwithstanding such possibility, according to the Euromonitor Report which is supported by our understanding from the LEGO Group, the LEGO Group has not appointed any new distributors (other than our Group and existing key accounts of the LEGO Group) to distribute LEGO products to end-users and wholesale customers in the PRC up to the Latest Practicable Date. We believe that the LEGO Group has stringent policy in selecting its business partners (which have to meet with (among other requirements) environmental, social, health and safety, and corporate governance standards)). According to the Euromonitor Report, the five largest toy retailers in the PRC accounted for approximately 33% of market share in terms of retail sales value in 2016; we had the largest market share of approximately 14% and the fifth largest only accounted for approximately 1%. In general, it is reasonable to infer that a majority of the participants in the toys retail industry are small to medium-sized retailers. The Directors believe that even if it is possible for the LEGO Group to appoint new distributors, it would be reasonable to infer that under current competitive landscape in the toy industry in the PRC, there is no obvious single competitor of similar scale of our Group that the LEGO Group could appoint as its distributor and will create a material threat to the existing market share of our Group in the near term. Also, given the nature of the toy industry in the PRC, it would not be commercially and administratively efficient for the LEGO Group or any international brand owners to appoint a large number of smaller distributors in a highly fragmented market.

To the best of our knowledge and after having made all reasonable enquiries, as at the Latest Practicable Date, the LEGO Group had one stand-alone directly operated LEGO brand flagship store in Shanghai, and there was also an online store operated in the name of "樂高官方旗艦店" (LEGO official flagship store) on each of Tmall and JD.com which is not operated by us.

To the best of our knowledge and belief after having made all reasonable enquiries, the LEGO Group supplies LEGO products directly to a few of our wholesale customers which have been key accounts of the LEGO Group. In such connection, we have not sold LEGO products to such key accounts of the LEGO Group, but have sold to them products of other brands (i.e. non-LEGO products). These key accounts may sell through their own retail outlets or online channels in the PRC the LEGO products sourced from the LEGO Group as well as other products sourced from us or other suppliers of theirs. So far as we are aware, such key accounts' business models do not include engaging other wholesalers or retailers to distribute LEGO products in the PRC.

Save for our Group, the LEGO brand flagship store in Shanghai, the online LEGO flagship stores on Tmall and JD.com, the LCS operated by Independent Third Parties and the existing key accounts of the LEGO Group (as mentioned above), as at the Latest Practicable Date, the Directors were not aware of (which is supported by the research results of Euromonitor) any other channels directly operated by the LEGO Group or Independent Third Parties for distributing LEGO products in the PRC. However, we cannot preclude the possibility that in the future, the LEGO Group may set up more retail stores operated by itself or may appoint other distributors of LEGO products in the PRC.

Potential competition from our wholesale customers

We believe it is possible that those wholesale customers to which the LEGO Group supplies LEGO products directly may sell the same LEGO products at a lower retail price than us or our distributors. We cannot rule out the possibility that they may compete with us in terms of product pricing and purchase costs going forward. However, in order to maintain and develop a healthy business environment, we believe it is not commercially sensible for any such wholesale customers to adopt an intense price competition strategy for the following reasons: Distributors of the LEGO Group are required to conduct sales and marketing activities in a lawful manner, consistent with the highest standard of fair trade, fair competition and business ethics as to maintain the goodwill and high reputation of the LEGO Group, its products and brand as usually stipulated in the distributorship agreements. Under the distributorship agreements entered into by the LEGO Group with us, there are provisions regarding the "recommended retail prices" and relevant pricing structure for each channel. It is therefore reasonable to assume that any distributors appointed by the LEGO Group will be encouraged to follow similar recommended retail prices and such pricing structure and hence will not sell LEGO products by deviating from such recommended retail prices to a significant extent, and these new distributors will not compete in a grossly unfair manner by initiating or engaging in intensive price-competition (i.e. a prolonged price-reduction strategy for acquiring or consolidating market share by reducing product sale prices to nearing (or lower than) the aggregate costs incurred (including associated costs)).

Further, a business operator in the PRC is prohibited from selling goods at a price lower than its cost for the purpose of "squeezing out" competitors under the Anti-Unfair Competition Law (反不正當競爭法) and the Price Law (價格法); if the scale of operation of such competitor is relatively large, it may be subject to the Anti-Monopoly Law (反壟斷法) of the PRC for being an operator with dominant market position, and under Section 17(2) of Anti-Monopoly Law, it is not lawful for such operator to sell its products at a price lower than its costs without legitimate reasons. A business operator engaged in behaviors in breach of these provisions may be exposed to actions for damages from competitors who suffer losses therefrom and/or subject to serious administrative penalties. It is believed that a competitor selected to be a business partner of the LEGO Group and in particular that of a relatively large-scale will be law-abiding.

Larger-scale market players may more readily fulfill the LEGO Group's selection criteria. Should the LEGO Group decide to engage another new distributor to distribute its products in the PRC which are in competition with those of our Group's, our business may be affected adversely as some or all of the existing wholesale customers of our Group may choose to source LEGO products from such distributor and our Group's revenue attributable to the wholesale channels may accordingly decrease.

So far as we are aware, up to the Latest Practicable Date, none of our wholesale customers (other than the aforementioned wholesale customers) have entered into any wholesale arrangement with the LEGO Group directly. We cannot preclude the possibility of any such wholesale customers to enter into distributorship agreements with the LEGO Group directly and become our competitors.

In addition, most of our wholesale customers source from our Group products of different varieties from diverse brand-owners (in addition to the LEGO products), most of which we have exclusive distribution rights. Notwithstanding a change in the exclusivity arrangement, we believe that our distributors still have good reasons to continue sourcing LEGO products from us. The major reasons include the following: As our distributors may purchase a wide array of products (including LEGO products) from diverse brand-owners from us (i.e. a single source), it allows convenience and provides efficiency, in terms of time and resources allocation to our distributors. Our distributors thus may sell a diversity of high-quality toys or infant products (in addition to LEGO products), many of which are supplied by us on an exclusive basis in the PRC. In addition, in selecting products to be supplied, we have evaluated market demands and potential, and we also conduct various brand marketing activities for products of different brand owners. These efforts will accordingly reduce the distributors' promotion costs and the level of risk of such distributors from buying products of low demands or keeping obsolete stocks. Procuring directly from us allows such distributors to purchase a diversity of toys and infant products of different brands in smaller amounts in accordance with our distributors' own sales forecasts and plans, having regard to their own financial resources and also preference on inventory level. Besides, our policy of allowing exchange (up to 5% of the value of the products sold to the relevant distributors in the preceding three to six months) for excess inventory or slow moving products every three to six months is a strong incentive for our distributors to continue dealing with us. We believe it is to the mutual benefit of such wholesale customers and our Group to continue such supply relationship of toys and infant products of different varieties from diverse brand owners, hence the possibility of using a price competition strategy against us is unlikely.

We believe that up to the Latest Practicable Date, we have maintained a solid business relationship with the LEGO Group. Notwithstanding the changes in certain terms to our distribution rights which took effect in 2016 under the 2016 LEGO Agreement, our revenue attributable to LEGO products for FY2016 increased by approximately 2.5% as compared with that for FY2015; while for the four months ended 30 April 2017, our revenue attributable to LEGO products increased by approximately 8.0% as compared with that for the four months ended 30 April 2016. During the Track Record Period, there was a gradual decreasing trend in our reliance on the sales of LEGO products (which represented 66.5%, 64.2%, 62.7% and 61.2% of our revenue, respectively). Upon the termination of our exclusivity in certain distribution channels from 2016 onwards, our revenue and net profit continued to record positive growth for the four months ended 30 April 2017 as compared with that for the four months ended 30 April 2016. In addition, we started to operate our first LEGO Certified Store in the PRC in May 2017. As at the Latest Practicable Date, we operated three LEGO Certified stores in the PRC. Having taken into account our unaudited consolidated management accounts for the four months ended 31 August 2017, our revenue attributable to LEGO products for the first eight months of 2017 continued to record positive growth as compared to the same period in FY2016. Our Directors are of the view that up to the date of this prospectus, there had been no material adverse change on our Group in light of the abovementioned changes in our distribution rights under the 2016 LEGO Agreement.

Other major terms of the 2016 LEGO Agreement

Other major terms of the 2016 LEGO Agreement include the following:

- Duration – The 2016 LEGO Agreement remains in force until 31 December 2017, subject to renewal by agreement to be finalised between both parties.

- Purchase prices – We purchase our LEGO products at an agreed discount to the recommended retail prices determined by the LEGO Group. Such recommended retail prices are solely for the purpose of the calculation of the purchase prices, and we have full discretion to determine the retail prices of LEGO products in the PRC.

- Purchase discounts and trade contributions – We are given certain purchase discounts and trade contributions as agreed upon under the 2016 LEGO Agreement. Trade contributions are incentives that the LEGO Group provides to us to improve the key performance indicators.

- Purchase management – Title to the products are passed to us after we have fully settled the payment of products, while risk of loss with respect to the products is passed to us when the delivery is made.

- Delivery cost – The LEGO Group is generally responsible for the cost of delivery from its warehouse(s) to our distribution centres.

- Return and refund policy – We are required to inspect and return (if necessary) the LEGO products in accordance with the guidelines of the LEGO Group. In the event of material defects of the LEGO products, we are required to follow the refund policy set out in the 2016 LEGO Agreement.

- Sales and key performance targets – Both parties formulate a joint business plan each year during the term of the 2016 LEGO Agreement in which sales and key performance targets are specified. There is no minimum purchase requirement imposed on our Group. Should our Group fail to meet the sales and performance targets specified in the joint business plan, our trade contributions given by the LEGO Group would be reduced or cancelled.

- Payment term – We are required to settle the payment of LEGO products in RMB within an agreed length of period. We enjoy certain credit limit and credit days which are granted at the sole discretion of the LEGO Group. Such term may be suspended subject to prepayment or provision of guarantee by banks or us.

- Marketing and promotion – We use all marketing materials developed by the LEGO Group if so requested. Both parties may co-invest in marketing activities based on mutual agreement and joint decision determined between both parties.

- Intellectual property right – Subject to terms and conditions set forth in the 2016 LEGO Agreement, we are granted a non-exclusive, limited, revocable, non-sub-licensable (except for sub-licences to second tier distributors or second tier retailers approved by the LEGO Group), non-transferable licence to use the LEGO trademarks solely in connection with the sale, promotion, marketing, advertisement and distribution of the LEGO products in the PRC.

- Termination – Either party to the 2016 LEGO Agreement has the right to terminate the agreement on the occurrence of certain events set out therein (including the grounds of (among others) our Group's breach in any material respect of the terms of the 2016 LEGO Agreement).

As compared with the previous distributorship agreement for the term of 2013-2015, it is a new term added to the 2016 LEGO Agreement that second-tier distributors and second-tier retailers to be appointed by us in 2017 is subject to the LEGO Group's prior written consent, and certain performance report in respect of such second-tier distributors and second-tier retailers has to be given by us to the LEGO Group on a regular basis, which performance may affect the trade contributions that we enjoy as mentioned above. Save for the said addition, the Directors consider that the 2016 LEGO Agreement does not contain any terms which are materially different from the previous distributorship agreement made with the LEGO Group for the term of 2013-2015.

Renewal status of the 2016 LEGO Agreement

Since the 2016 LEGO Agreement becoming effective and up to the Latest Practicable Date, other than the information disclosed in this prospectus, there has not been any material change in our business relationship with the LEGO Group. We currently have discussions with the LEGO Group regarding the renewal of the 2016 LEGO Agreement. As at the Latest Practicable Date, the Directors were not aware of any material impediment for us to renew the 2016 LEGO Agreement upon its expiry. As at the Latest Practicable Date, the LEGO Group confirmed its intention to renew the 2016 LEGO Agreement with our Group, subject to negotiation of details. It is expected by our Directors that the details of the new distributorship agreement would be concluded before the end of 2017, and the formal agreement would be entered into at the same time or subsequently but no later than the first quarter of 2018. We believe that major terms of the new distributorship agreement are unlikely to materially deviate from the 2016 LEGO Agreement on the basis that as at the Latest Practicable Date, our Group received a contract proposal from the LEGO Group in which our Group's existing distribution right is proposed to remain unchanged as compared to the 2016 LEGO Agreement and our recent discussion with the LEGO Group focused on trading terms including the payment term, purchase discounts and trade contributions. We do not preclude the possibility of downward adjustments to some of these trading terms which may affect our margin, rebate income and liquidity in the sales of LEGO products. However, we strive to keep the overall gross profit margin generated from sales of LEGO products through our self-operated retail channels unchanged under the new distributorship agreement and the gross profit margin through our wholesale channels may be subject to further negotiation with the LEGO Group. Our Directors are of the view that such possible downward adjustments would not have material adverse impact on our operation and financial position after the Listing. The new distributorship agreement is expected to have a term of one year and is automatically renewable for one more year upon mutual agreement. For a description of the risks associated with the loss of exclusive distribution rights, please refer to the paragraph headed "Risks relating to our business – We may lose our exclusive distribution right to sell LEGO's products in certain distribution channel and/or fail to renew the 2016 LEGO Agreement with the LEGO Group which could have adverse effect on our business" under the section headed "Risk Factors" in this prospectus.

Single-brand retail shops – LEGO brand stores and LEGO Certified Stores

We opened the first LEGO brand store in 2002 in the PRC, which offered a large number of LEGO products and LEGO-branded merchandise for different ages. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we operated six, six, six and five LEGO brand stores in the PRC, respectively. Our LEGO brand stores were operated under the LEGO logo in accordance with the layout concept, product programme and various guidelines from the LEGO Group on the use of the LEGO brand.

The concept of the LEGO Certified Store was developed by the LEGO Group to provide an enhanced retail experience to reflect the quality of the LEGO products as well as the quality of play for children. To enable consistent shopping experience for customers, the design of LEGO Certified Store have to adhere to the store fit-out and experience guidelines laid down by the LEGO Group, the required specifications of which are much more stringent than that for LEGO brand stores.

(a) *LEGO Certified Store in the PRC*

In November 2016, we entered into an agreement and the related sales agreement and licence agreement ("**PRC LCS Agreement**") with members of the LEGO Group, pursuant to which we are authorised to operate and manage LCS in the PRC on a non-exclusive basis as from 1 January 2017. As at 30 April 2017, we had two and three LEGO brand stores in Beijing and Shanghai, respectively. Following the signing of the PRC LCS Agreement, a store renovation and refurbishment plan was formulated, and it was planned that (i) all LEGO brand stores in Beijing would be converted into LEGO Certified Stores; (ii) in Shanghai, two LEGO brand stores would be closed down and one LEGO brand store would be converted into a Kidsland store; and (iii) the LEGO brand store in Shenzhen would be converted into a Kidsland store. In May 2017, our first LEGO Certified Store opened in Beijing. Two LEGO brand stores were converted into Kidsland stores as planned in the first half of 2017. Once the LEGO brand stores have been converted into LEGO Certified Stores, we have the right to operate for a period of about three years from the opening date stated on the operating certificate to be issued by the LEGO Group and counter-signed by ourselves (the "**Operating Certificate**"). As at the Latest Practicable Date, we operated two LCS in Beijing and one LCS in Tianjin.

Major terms of the PRC LCS Agreement include the following:

- Term – Three (3) years after the expiry or termination of the development term ("**Development Term**") which commenced from 23 November 2016 and will expire on 31 December 2019, or when the LEGO Group terminates our rights to operate the LCS, or the terms of the Operating Certificate expire within the previous three years, whichever is earlier.

- Development right – We have the obligation to open a minimum of three LCS in the PRC within the Development Term, and operate such stores for a period of three years from the store opening date as set out in the Operating Certificate.

- Exclusivity – Our right to operate LCSs in the PRC is generally not exclusive.

- Sales target – Both parties agree to specified monthly and annual turnover targets during the period between 23 November 2016 and 31 December 2019.

- Credit term and trade contributions – We enjoy certain credit term and credit limit which are granted at the sole discretion of the LEGO Group. We are entitled to discounts and trade contributions from the LEGO Group, which are partly based on the results of the sales and performance review.

- Termination – The LEGO Group has the right to terminate the PRC LCS Agreement upon occurrence of certain events as set forth under the PRC LCS Agreement.

- Marketing – We are required to spend a specified percentage of gross turnover for advertising and promotion. Marketing materials are supplied by LEGO Group or they may be prepared by us, subject to compliance with the marketing and sales guidelines of the LEGO Group or to the LEGO Group's prior written approval.

- Intellectual property rights – In accordance with and subject to the terms set forth under the PRC LCS Agreement, we have the right to use certain trademarks, systems, know-how and other intellectual property rights solely in connection with the operation of LCS and the sale, promotion, marketing advertisement and distribution of products from approved LEGO Certified Store(s) on a non-exclusive, revocable and non-sub-licence basis for a term consistent with the PRC LCS Agreement.

- Sale of LCS – We are not allowed to sell the LCS business in the PRC during the first three years of the PRC LCS Agreement. Subject to the prior written consent of the LEGO Group, we may sell the LCS business without the development right/right to open additional LCS. The LEGO Group or its nominee has an option to purchase such business at the same price and on the same terms as the purchase offer made by a potential purchaser.

Growth in comparable retail points sales attributable to LEGO products during the Track Record Period

Our comparable LEGO retail points sales attributable to LEGO products for the Track Record Period are set out in the table headed "Financial Information – Descriptions of Principal Components of Combined Statements of Profit or Loss and other Comprehensive Income – Revenue – Growth in comparable self-operated retail points sales during comparable periods" (page 254) of this prospectus. As mentioned in the discussion and analysis under that table, the comparable retail points sales growth of the LEGO products in our consignment counters experienced a similar decreasing trend as our general comparable retail points sales growth. The comparable retail points sales growth of the LEGO products in our consignment counters was 24.68%, 9.21%, (2.5)% and 8.24% in FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively, while the comparable retail points sales growth of the LEGO products in our retail shops was 31.18%, 11.19%, 6.06% and 6.79% in FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively.

The gradual decrease of the overall comparable retail points sales growth rate of the LEGO products in FY2014, FY2015 and FY2016 was primarily affected by the devaluation of RMB against HK$ during the period and was also attributable to the increase in number of our retail points. We believe that the increase in comparable retail points sales growth of the LEGO products for the four months ended 30 April 2017 was a result of our effort in holding promotional campaigns and our special promotional offers given to members of our membership programme.

(b) LEGO Certified Store in Hong Kong

In 2016, we entered into an agreement and the related sales agreement ("**HK LCS Agreement**") with the LEGO Group, pursuant to which we have an exclusive right to develop and operate LEGO Certified Stores in Hong Kong for a term of three years commencing from August 2016. In August 2016, we opened our first LEGO Certified Store in Hong Kong. Our second LEGO Certified Store in Hong Kong opened in July 2017. In the fourth quarter of 2017, we plan to open one LEGO Certified Store in Hong Kong. It is our plan to open one LEGO Certified Store in Hong Kong in 2018. Major terms of the HK LCS Agreement include the following:

- Term – Three years from August 2016 ("**HK Development Term**"), extendable for a further term of two years ("**Development Extension Term**") subject to the terms stated in the HK LCS Agreement.

- Development right – We have the obligation to open a minimum of four LCS in Hong Kong from 1 August 2016 to 31 December 2018 ("**HK Operative Period**") and to operate such stores for a period of three years from the store opening date stated in the Operating Certificate on an exclusive basis. Such right may be extended to the Development Extension Term on a non-exclusive basis, unless the LEGO Group at its sole discretion then agrees to grant us an exclusive right.

- Exclusivity fee – No fee will be charged during the HK Development Term; and a fee which is pegged with gross turnover will be charged, if we are granted an exclusive right to develop and operate LCS during the Development Extension Term.

- Sales target – As part of our obligations under the operating conditions, we are required to use our best endeavours to maintain and increase the turnover of each LCS.

- Termination – The LEGO Group has the right to terminate the HK LCS Agreement on the occurrence of specified termination events.

- Payment term and allowances – Payment is to be made in accordance with the terms set out in the invoice. The LEGO Group may grant or extend credit terms to us subject to our financial status. We are entitled to discounts and allowances from the LEGO Group, if we perform certain agreed marketing activities to the satisfaction of the LEGO Group.

- Marketing – We are required to spend a specified percentage of gross turnover for advertising and promotion.

- Intellectual property rights – We have the right to use certain trademarks, systems, know-how and other intellectual property rights on a non-exclusive, revocable and non-sub-licence basis for a term consistent with the HK LCS Agreement.

- Sale of LCS – We are not allowed to sell the LCS business in Hong Kong during the first three years of the HK LCS Agreement. The LEGO Group has an option to purchase for the same price and on the same terms as the purchase offer made by a potential purchaser.

Reliance on the LEGO Group

We believe that our business is not unduly reliant on the LEGO Group for the following reasons:

- Mutually beneficial and complementary relationship – According to the Euromonitor Report, the five largest toy retailers in the PRC accounted for approximately 33% of market share in terms of retail sales value in 2016 and we had the largest market share of approximately 14%. Our Group and the LEGO Group have a long history of cooperation dating back to 2001. Over the years, we have built up mutual trust, understanding and effective communication with each other. In addition, as at 30 April 2017, our Group had established a solid presence with 509 retail points in 65 cities across 25 provinces, autonomous regions and municipalities in the PRC and two online stores selling LEGO products and/or other toy or infant products. As for our wholesale channels, we also have a diversified and growing customer base with an extensive network ranging from distributors, hypermarket and supermarket chains to online key accounts. As at 30 April 2017, our wholesale customers operated about 2,000 retail shops selling LEGO products and/or other toy or infant products in 103 cities across 30 provinces, autonomous regions and municipalities in the PRC and we also sold LEGO products to 11 online key accounts. According to the Euromonitor Report, the LEGO Group is a world renowned manufacturer of construction toys for people of different ages, and our sales of LEGO products (in terms of final retail sales value) accounted for over 80%, over 70% and over 50% of the total retail sales (in terms of final retail sales value) of LEGO products in the PRC in 2014, 2015 and 2016, respectively. Given our established business relationship, proven track record, extensive retail and distribution network and our contribution to total sales of the LEGO Group in the PRC, we believe that we may continue the mutually beneficial and complementary relationship with the LEGO Group, as replacement of us with another distributor of similar size and market position within a short period of time may not be commercially efficient or viable.

  As set out in the "Industry Overview" section under the paragraph headed "Competitive landscape of toy retailers in China", Player A accounted for approximately 11% of the market share in terms of retail sales value in 2016 in the PRC, being the second largest toy retailer. So far as we are aware, Player A only operates its own retail shops and so far has not engaged in wholesale activities. In addition, it has been the general business strategy of Player A to open a single or a few stores in a city, and each of such stores has a large floor area with an extensive variety of products displayed and sold. The extensive range of brands and products offered by Player A tends to appeal to a wider group of customers. According to the research results of Euromonitor, in 2016, Player A had about 130 shops located in 55 cities in the PRC. As at 30 April 2017, our Group had 222 retail shops and 532 consignment counters in the PRC, and our Group also engaged in wholesale activities. As Player A already has established business relationship with the LEGO

Group but Player A's business strategy is different from our Group's and the geographic coverage of Player A's retail points in the PRC is less extensive compared with that of our Group, our Directors do not anticipate there is a strong incentive for the LEGO Group or Player A to change their current business relationship, and to replace our Group with Player A to look after the wholesale network and/or retail network in the PRC. According to the Euromonitor Report, the toy and infant product market is highly fragmented. As such, our Directors consider that it would not be commercially sensible for the LEGO Group to appoint other retailers with smaller scale to replace us, provided we are the largest toy retailer with extensive retail network which has been expanding.

- Stable and long term business relationship – Since our cooperation with the LEGO Group, we have not committed any material breach of the distributorship agreements with them. We believe our level of service has been to the satisfaction of the LEGO Group, or otherwise our business relationship with the LEGO Group will not have been maintained for over 16 years. Further, we have not encountered any material dispute with them.

  We are in the course of negotiation with the LEGO Group for the renewal of the 2016 LEGO Agreement. As at the Latest Practicable Date, the LEGO Group confirmed its intention to renew the 2016 LEGO Agreement with our Group, subject to negotiation of details. We believe that we are a valuable business partner of the LEGO Group. The changes in certain terms to our distribution rights under the 2016 LEGO Agreement reflect a different form of cooperation between our Group and the LEGO Group. We are not aware that there would be any major obstacles in continuing our business relationship with the LEGO Group, given the fact that (i) we have been in compliance with the major terms and conditions set out in the previous and current distributorship agreements; and (ii) we are the largest toy retailer in terms of retail sales value in 2016 in the PRC with extensive retail and distribution networks. In addition, we believe that our long and stable business relationship with the LEGO Group established over the last 16 years will not deteriorate to an extent which will cause our business relationship to be discontinued.

  In view of our past records, we expect that we will be able to perform the distributorship agreement with the LEGO Group by fulfilling the terms and conditions of the 2016 LEGO Agreement.

- Multi-brand strategy – We will continue to monitor the market acceptance of the products which we carry, consumer preference and identify potential brands. We have from time to time identified new brands to cooperate with. During the Track Record Period, we entered into distributorship agreement with 11 new brand owners. For further details, please refer to the paragraph headed "Our Brand Owners – Our distributorship agreements" (page 129) in this section. As illustrated by such table, our Group has the ability to include new brands in our brand portfolio during the Track Record Period and up to 31 August 2017 by identifying branded toys and infant products which have demands in the PRC, and by entering into distribution agreements with the respective brand owners, most of which are reputable brand owners. As at 30 April 2017, our brand portfolio consisted of over 26 international brands. We have developed and maintained strong and stable relationships with a number of suppliers of international brands. During the Track Record Period, our reliance on the LEGO Group was decreasing gradually with our sales of LEGO products accounting for 66.5%, 64.2%, 62.7% and 61.2%, respectively, of our revenue, whilst the sales from our other brands recorded an increasing trend accounting for 33.5%, 35.8%, 37.3% and 38.8%, respectively, of our revenue for the corresponding periods. Going forward, we will continue to explore the possibility of cooperating with and distributing other brands or new brands of toys, which we consider has good market potential. For details of our selection policy in relation to brand owners, please refer to the paragraph headed "Our Brand Owners – Selection policy in relation to brand owners" in this section.

- Product diversification – We see opportunities to grow our business in the infant products segment. With the abolition of the decades-old "one-child policy" in the PRC, couples are allowed to have more than one child, which is likely to result in a surge in household consumption. We believe that companies which are likely to benefit from the change in government policy include those engaged in the sale and distribution of maternity and baby care products. During the Track Record Period, the sales of our infant products grew gradually (i.e. amounting to HK$115.9 million, HK$129.2 million, HK$162.9 million and HK$53.0 million, respectively), and accounted for approximately 8.8%, 8.3%, 9.9% and 9.4% of our revenue for the corresponding periods. Going forward, we expect our revenue contribution from the infant products segment to increase, and our revenue stream will be more diversified.

In view of the above, we believe that our business relationship with the LEGO Group is mutually beneficial and complementary, and the level of reliance on the LEGO Group will gradually decrease in the future.

Sales of LEGO products

The following table sets forth our revenue attributable to LEGO products by our self-operated retail and wholesale channels for the periods indicated:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		For the four months ended 30 April 2017		For the four months ended 31 August 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million* (Unaudited)	*%*	*HK$ million*	*%*	*HK$ million* (Unaudited)	*%*
Self-operated retail channels												
– Retail shops	160.5	18.2	210.1	21.0	262.7	25.6	78.7	24.5	104.6	30.1	138.5	35.5
– Consignment counters	272.7	31.0	314.5	31.3	313.2	30.5	108.1	33.6	117.0	33.7	106.3	27.2
– Online stores	48.9	5.6	26.3	2.6	26.0	2.5	3.5	1.1	4.4	1.3	12.9	3.3
Sub-total	482.1	54.8	550.9	54.9	601.9	58.6	190.3	59.2	226.0	65.1	257.7	66
Wholesale channels												
– Online/offline wholesale												
• Distributors	311.6	35.4	394.3	39.3	374.9	36.5	116.4	36.2	109.4	31.5	111.8	28.7
• Hypermarket and supermarket chains	31.1	3.5	29.5	2.9	31.5	3.0	7.0	2.2	8.6	2.5	10.9	2.8
• Online key accounts	56.0	6.3	28.0	2.9	19.7	1.9	7.9	2.4	3.2	0.9	9.8	2.5
Sub-total	398.7	45.2	451.8	45.1	426.1	41.4	131.3	40.8	121.2	34.9	132.5	34
Total	880.8	100.0	1,002.7	100.0	1,028.0	100.0	321.6	100.0	347.2	100.0	390.2	100.0

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, self-operated retail channels accounted for approximately 54.8%, 54.9%, 58.6% and 65.1% respectively of our revenue generated from sales of LEGO products, while the wholesale channels accounted for approximately 45.2%, 45.1%, 41.4% and 34.9% respectively of our revenue generated from sales of LEGO products. Our retail shops accounted for approximately 18.2%, 21.0%, 25.6% and 30.1% respectively of our revenue generated from sales of LEGO products, which is mainly attributable to the increase in the number of retail shops selling LEGO products and growth in comparable retail point sales of LEGO products during the Track Record Period. Our revenue generated from sales of LEGO products via distributors showed a decreasing trend from approximately 35.4% of our revenue generated from sales of LEGO products for FY2014 to approximately 31.5% for the four months ended 30 April 2017, which is mainly due to the significant increase in our sales through our retail shops during the Track Record Period, while the amount of sales through our distributors remain stable during the Track Record Period. Our sales of LEGO products through online stores experienced a decreasing trend during the Track Record Period. It decreased from approximately 5.6% of our revenue generated from sales of LEGO products for FY2014 to approximately 2.6% for FY2015, approximately 2.5% for FY2016, approximately 1.1% for the four months ended 30 April 2016 and approximately 1.3% for the four months ended 30 April 2017. The decrease was due to we stopped operating the LEGO online flagship store on Tmall since 2015, and since then, LEGO Group started to manage the flagship store through third party at Tmall and also directly selling to JD.com. For the four months ended 30 April 2017, our revenue attributable to LEGO products amounted to approximately HK$347.2 million, representing an increase of approximately 8.0% as compared with that for the four months ended 30 April 2016.

During the Track Record Period, our overall gross profit margin generated from sales of LEGO products remained stable. Generally, our sales of LEGO products in self-operated retail channels generated higher gross profit margin than our wholesale channels, which is mainly due to higher selling price in order to cover higher selling and distribution expenses such as consignment expenses, rental expenses and salaries of sales staff, which are usually incurred in the self-operated retail channels. As for our wholesale channels, less selling and distribution expenses are usually incurred and hence a lower selling price could be offered to our wholesale customers.

SALES AND DISTRIBUTION OF OUR PRODUCTS

Our sales and distribution channels

We sell and distribute toys and infant products through (i) self-operated retail channels; and (ii) wholesale channels. Under our self-operated retail channels, we sell our products through (i) retail shops including shops under our own brands, namely Kidsland stores and Babyland stores, as well as single branded stores under a specific brand; (ii) consignment counters in department stores and a renowned global toy store chain; and (iii) online stores on third party-operated online platforms, from which end-users, who are individuals, can pick and choose their favourite items. Under our wholesale channels, we distribute our products through (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC. Distributors sell to end-users through their own online and/or offline retail shops and/or via third party retailers.

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

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April			
							2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Self-operated retail channels										
– Retail shops	277.4	20.9	368.6	23.6	443.4	27.0	136.8	27.4	168.7	29.8
– Consignment counters	474.5	35.8	559.4	35.9	539.0	32.9	183.6	36.8	204.5	36.1
– Online stores	59.5	4.5	33.1	2.1	65.3	4.0	10.0	2.0	18.7	3.3
Sub-total:	811.4	61.2	961.1	61.6	1,047.7	63.9	330.4	66.2	391.9	69.2
Wholesale channels										
– Online/offline wholesale										
• distributors	406.1	30.7	528.0	33.8	514.2	31.4	150.5	30.2	151.7	26.8
• hypermarket and supermarket chains	39.4	3.0	34.6	2.2	36.0	2.2	7.7	1.5	12.5	2.2
• online key accounts	67.7	5.1	37.6	2.4	40.5	2.5	10.4	2.1	10.6	1.8
Sub-total:	513.2	38.8	600.2	38.4	590.7	36.1	168.6	33.8	174.8	30.8
Total:	1,324.6	100.0	1,561.3	100.0	1,638.4	100.0	499.0	100.0	566.7	100.0

The following table sets forth a breakdown of gross profit and gross profit margin by our self-operated retail and wholesale channels for the period indicated:

	For FY2014		For FY2015		For FY2016		Four months ended 30 April 2016		Four months ended 30 April 2017	
	HK$ million	*Margin (%)*	*HK$ million*	*Margin (%)*	*HK$ million*	*Margin (%)*	*HK$ million*	*Margin (%)*	*HK$ million*	*Margin (%)*
Self-operated retail channels										
– Retail shops	160.0	57.7	216.8	58.8	253.6	57.2	76.7	56.1	94.4	56.0
– Consignment counters	278.5	58.7	334.0	59.7	313.4	58.1	101.3	55.2	119.4	58.4
– Online stores	29.7	49.9	16.3	49.2	31.9	48.9	4.2	42.0	9.6	51.3
Sub-total	468.2	57.7	567.1	59.0	598.9	57.2	182.2	55.1	223.4	57.0
Wholesale channels										
– Online/offline wholesale										
• Distributors	135.8	33.4	187.3	35.5	188.8	36.7	46.9	31.2	46.6	30.7
• Hypermarket and supermarket chains	15.8	40.1	14.6	42.2	13.3	36.9	2.7	35.1	4.3	34.4
• Online key accounts	24.9	36.8	15.2	40.4	16.8	41.5	3.9	37.5	4.4	41.5
Sub-total	176.5	34.4	217.1	36.2	218.9	37.1	53.5	31.7	55.3	31.6
Total	644.7	48.7	784.2	50.2	817.8	49.9	235.7	47.2	278.7	49.2

Self-operated retail channels

We have established an extensive retail network in the PRC. Our retail channels are self-operated and comprise (i) retail shops; (ii) consignment counters in department stores and a renowned global toy store chain and (iii) online stores. As at 30 April 2017, we sold our products through 222 retail shops and 532 consignment counters, which sum up to 754 retail points and were located in 77 cities across 25 provinces, autonomous regions and municipalities in the PRC, of which 564 of our retail points were located in Tier 1 and Tier 2 cities, and 190 were in Tier 3 cities. We also had one retail shop (being LCS) in Hong Kong as at 30 April 2017. Our retail shops and consignment counters are mainly located in well-known department stores or major shopping malls in Tier 1, Tier 2 and Tier 3 cities. As at the Latest Practicable Date, our retail shops occupied a total GFA of about 34,800 sq.m.. In addition to our retail points, we also operate ten online stores on third party-operated online platforms as at 30 April 2017.

The following table sets forth the changes in the number of our retail points for the periods indicated:

	As at/for the year ended 31 December			As at/for the four months ended	As at/for the four months ended
	2014	**2015**	**2016**	**30 April 2017**	**31 August 2017**
Retail points					
At the beginning of the period	462	624	695	740	754
Addition of new retail points	221	120	118	40	49
Closing down of retail points	(59)	(49)	(73)	(26)	(48)
Net increase in the number of retail points	162	71	45	14	1
Total	624	695	740	754	755

We have strategically delineate our sales network into specified region, namely Northern, Central and Southern China (華北, 華中, 華南) across the PRC. As at 30 April 2017, we had three regional offices in the PRC (namely, Beijing, Shanghai and Guangzhou, respectively) and one office in Hong Kong, with our PRC headquarters located in Beijing. Each of the regional offices in the PRC is responsible for managing the retail shops and consignment counters and carrying out marketing and promotional activities in the specified region. We have also established branch offices in various locations which are used to facilitate the management of our retail points and provide better service to our wholesale customers. The premises occupied by our branch offices are usually small in scale and supportive in nature.

The following map depicts the geographic coverage of our 222 retail shops and 532 consignment counters in the PRC and one retail shop in Hong Kong as at 30 April 2017:

As at 30 April 2017

Northern China	**261 retail points**	**754 retail points, comprising 222 retail shops and 532 consignment counters**
Southern China	**220 retail points**	
Central China	**273 retail points**	
Hong Kong	**1**	

The following table sets forth the revenue contribution of our retail points in respective regions for the periods indicated:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April			
							2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Northern China	325.1	43.3	410.2	44.2	413.4	42.1	143.3	44.7	151.9	40.7
Central China	249.1	33.1	308.2	33.2	326.1	33.2	107.6	33.6	128.5	34.4
Southern China	177.7	23.6	209.6	22.6	211.0	21.5	69.5	21.7	74.9	20.1
Hong Kong	–	–	–	–	31.9	3.2	–	–	17.9	4.8
Total	751.9	100.0	928.0	100.0	982.4	100.0	320.4	100.0	373.2	100.0

We experienced increase in revenue for each of the regions during the Track Record Period which was partly due to the increase in the number of brands for our toys and infant products and partly our effort in the promotion of our products. We also expanded in the number of retail points during the Track Record Period to increase our exposure to more end-users.

Revenue generated from Northern China was higher than that of Central China and Southern China during Track Record Period. Our products target affluent parents or expectant parents who are willing to spend more on well-known international branded toys and infant products. Consumers in Northern and Central China generally have higher disposable income per capita, but we believe consumers from Northern China are less price sensitive than consumers in Central China. Consumers in Southern China generally have lower disposable income per capita and hence we believe they are more price sensitive.

Retail shops

Our retail shops include both single-brand shops (i.e. those which sell products of the same brand, such as LEGO and Chicco) and multi-brand shops (i.e. those which are operated in our own brands and distribute different branded toys and infant products, namely, Kidsland and Babyland). Kidsland store houses multiple brands offering toys for children, while Babyland store offering toys and infant products for babies and infants.

As at 30 April 2017, we had 222 retail shops, of which 211 were multi-brand retail shops, while the remaining 11 were single-brand retail shops. Our retail shops are typically located at major shopping malls. As at the Latest Practicable Date, these shopping malls included China World (國貿) and selected malls of Wanda (萬達), Hang Lung (恒隆), Joy City (大悦城), Kerry Parkside (嘉里城), Mix City (萬象城), Indigo (頤堤港) and Longfor (龍湖).

(a) Multi-brand retail shops – Kidsland and Babyland stores

We opened our first Kidsland store in July 2006 in the PRC, while our first Babyland store opened in March 2012 in the PRC. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we operated 128, 149, 169 and 175 Kidsland stores and 26, 36, 35 and 36 Babyland stores in the PRC, respectively. Kidsland and Babyland stores are designed to allow our customers to enjoy pleasant shopping experience with quality service and experience one stop shopping for toys and infant products under different brands.

A Kidsland store typically carries 16 to 20 brands, the number of which is determined by various factors, including the GFA of that particular retail shop, its physical location and neighbourhood environment and demographic profile of target customers. Size of our Kidsland and Babyland store ranges from approximately 20 sq.m. to 400 sq.m..

(b) Single-brand retail shops – LEGO brand stores and LEGO Certified Stores

We opened the first LEGO brand store in 2007 in the PRC. As at 30 April 2017, we operated five LEGO brand stores in the PRC. Due to the worldwide roll-out of the LEGO Certified Stores by the LEGO Group, we entered into the PRC LCS Agreement and HK LCS Agreement with the LEGO Group. As at the Latest Practicable Date, we operated three LEGO Certified Stores in the PRC and two LEGO Certified Stores in Hong Kong. For details of the terms of the PRC LCS Agreement and HK LCS Agreement, please refer to the paragraph headed "Our Brand Owners – Our relationship with the LEGO Group – Single-brand retail shops – LEGO brand stores and LEGO Certified Stores" in this section.

(c) Other single-brand retail shops – Chicco and a French kids apparel brand

As at 30 April 2017, we operated two single-brand retail shops under the brand of Chicco and four single brand retail shops under a French kids apparel brand in the PRC.

Chicco store first opened in the PRC in September 2011. It provides a one stop shopping destination for infant products including baby strollers, baby high chairs, infant car seats, baby feeding gears, toys and apparel under the brand of Chicco.

As at the Latest Practicable Date, we operated two retail shops under a French kids apparel brand. As the sales performance of these stores was less than our original target, we started to close them down during the Track Record Period, and expect to close down all stores within 2017. The resources (including human resources) released from such closing will be deployed to the expansion of our Kidsland and Babyland stores.

Revenue contribution from our retail shops

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from retail shops amounted to approximately HK$277.4 million, HK$368.6 million, HK$443.4 million and HK$168.7 million, respectively, representing approximately 20.9%, 23.6%, 27.0% and 29.8%, respectively, of our revenue for the corresponding periods.

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

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Multi-brand retail shops										
– Kidsland stores	230.2	83.0	306.9	83.3	346.5	78.2	108.9	79.6	128.4	76.1
– Babyland stores	14.3	5.2	22.2	6.0	25.5	5.8	8.7	6.4	9.1	5.4
Sub-total:	244.5	88.2	329.1	89.3	372.0	84.0	117.6	86.0	137.5	81.5
Single-brand retail shops										
– LEGO brand stores/ LEGO Certified Stores*(Note)*	26.3	9.5	33.1	9.0	66.8	15.0	17.4	12.7	29.8	17.7
– Chicco brand stores	4.5	1.6	3.5	0.9	2.1	0.5	0.7	0.5	0.8	0.5
– A French kids apparel brand stores	2.1	0.7	2.9	0.8	2.5	0.5	1.1	0.8	0.6	0.3
Sub-total:	32.9	11.8	39.5	10.7	71.4	16	19.2	14.0	31.2	18.5
Total:	277.4	100.0	368.6	100.0	443.4	100.0	136.8	100.0	168.7	100.0

Note: As at 31 December 2014, 2015 and 2016 and 30 April 2017, we operated six, six, six and five LEGO brand stores in the PRC, respectively. In addition to our LEGO brand stores, we opened our first LEGO Certified Store in Hong Kong in August 2016. As a result, our revenue attributable to LEGO brand stores and LEGO Certified Stores increased from approximately HK$33.1 million for FY2015 to approximately HK$66.8 million for FY2016, representing a growth rate of approximately 101.8%.

Movement in the number of retail shops

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

	As at/for the year ended 31 December 2014	2015	2016	As at/for the four months ended 30 April 2017	As at/for the four months ended 31 August 2017
Retail shops					
At the beginning of the period	107	166	198	216	222
Addition of new retail shops	62	48	37	9	20
Closing down of retail shops	(3)	(16)	(19)	(3)	(11)
Net increase in the number of retail shops	59	32	18	6	9
At the end of the period	166	198	216	222	231

During the Track Record Period, we closed some retail shops for various reasons, including unsatisfactory sales performance, closure of the shopping malls themselves or expiry of the lease agreement without renewal.

Consignment counters

Some of our consignment counters located at department stores are operated under the brands of Kidsland and Babyland. We have entered into consignment agreements with department stores and a renowned global toy store chain to open and operate consignment counters. In addition to the consignment arrangement, the toy store chain also purchases products directly from us, other than LEGO products, on a wholesale basis. Our selling arrangement with the toy store chain is largely dependent on the brands of products supplied by us. Some branded products are sold on a wholesale basis while some branded products are sold via our consignment counters in the toy store chain. Our first consignment counter opened in Guangzhou in July 2001. To the best of our knowledge and belief, all of the department stores and the toy store chain where we operate our consignment counters are Independent Third Parties. As at 30 April 2017, most of our consignment agreements had a term of not more than one year. Specific terms of the respective consignment agreements vary from department store to department store and typically include the following:

- Term – The term of our consignment agreements generally is one year, and is not automatically renewed upon expiration.

- Consignment fee – We are required to pay a monthly consignment fee, which is usually calculated as certain percentage of the gross sale proceeds of the relevant consignment counter or is fixed as mutually agreed, whichever is higher. Certain consignment agreements require us to pay a minimum amount of monthly consignment fee.

- Deposit – Under certain consignment agreements, we are required to pay a deposit, which is refundable upon termination or expiration of the agreements. We are also required to make a down payment within a period of time after the consignment agreement is signed, which is refundable upon opening of the consignment counters.

- Sales management – We give warranty that we have legal title to the products displayed at our consignment counters. Title to a product and the related legal risk are passed to our end-users when the product is sold and delivered to the end-users. Inventories stored at the consignment counters belong to our Group.

- Personnel hiring and management – Most of the sales staff working at consignment counters are provided by a human resources company ("**HR Company**") which is an Independent Third Party. The HR Company is responsible for paying their salaries and related employment benefits, and for providing training programmes. For details of the outsourcing arrangement with the HR Company, please refer to the paragraph headed "Employees" in this section.

- Promotion management – Generally we collaborate with department stores to participate in certain seasonal promotional campaigns.

- Financial settlement – Generally sale proceeds from our consignment counters are first collected by the department stores (or the toy store chain). We invoice and collect these proceeds net of the consignment fees, promotional cost and other applicable fees and expenses charged by department stores (or the toy store chain) generally on a monthly or quarterly basis.

- Miscellaneous fees – We are required to pay maintenance fee, utilities and warehousing fees.

The contractual terms of the consignment agreement with the renowned global toy store chain include the following:

- Term – The term of agreement is usually one year.

- Consignment fee – We are required to pay a consignment fee, which is usually calculated as a certain percentage of the gross sale proceeds net of the value of consigned goods.

- Payment terms – The renowned global toy store chain generally has a credit period of 30 days from the date of invoice.

- Sales targets – If the renowned global toy store chain meets sales targets specified in the consignment agreements, it is entitled to sales rebates offered by us.

Department stores or the toy store chain are not entitled to terminate the consignment agreements unilaterally unless owing to our breach of contractual obligations. Some of the department stores impose a minimum monthly sales target on us. If we fail to meet the monthly sales target for a few consecutive months (or if our monthly sales fall by a certain percentage as compared with the same period in the preceding year, or if our concession counter is among one of the few poorest performing counters in terms of monthly sales), that department store may terminate the consignment agreement made with us. During the Track Record Period:

(a) we did not close any consignment counters before the expiry of the consignment agreement, and

(b) we did not fail to meet the monthly sales targets imposed by department stores with such requirements.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our aggregate consignment expenses paid to department stores and the renowned global toy store chain in connection with our consignment counters amounted to approximately HK$167.2 million, HK$184.7 million, HK$204.2 million and HK$66.2 million, respectively, representing approximately 12.6%, 11.8%, 12.5% and 11.7%, respectively, of our revenue for the corresponding periods.

Revenue contribution from our consignment counters

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from consignment counters under consignment agreements amounted to approximately HK$474.5 million, HK$559.4 million, HK$539.0 million and HK$204.5 million, respectively, representing approximately 35.8%, 35.9%, 32.9% and 36.1%, respectively, of our revenue for the corresponding periods.

Movement in the number of consignment counters

The following table sets forth the changes in the number of our consignment counters under consignment arrangement for the periods indicated:

	As at/for the year ended 31 December			**As at/for the four months ended**	**As at/for the four months ended**
	2014	**2015**	**2016**	**30 April 2017**	**31 August 2017**
Consignment counters					
At the beginning of the period	355	458	497	524	532
Addition of new consignment counters	159	72	81	31	29
Closing of consignment counters	(56)	(33)	(54)	(23)	(37)
Net increase in the number of consignment counters	103	39	27	8	8
At the end of the period	458	497	524	532	524

During the Track Record Period, we closed consignment counters for various reasons, including unsatisfactory sales performance, expiry of consignment agreements without renewal and closure of some department stores. In connection with the last two factors, department store sector in the PRC has been facing significant challenges in recent years as a result of the economic slowdown and emergence of new retail formats (such as new forms of shopping malls, specialty stores and e-commerce). Rapidly changing consumer habits and behaviours have posed significant challenges to the owners of department stores.

Online stores

To access China's rapidly growing online retail market, we launched our first Kidsland flagship store in 2011 on Tmall, which is one of China's best known business-to-customer online shopping platforms. From 2011 to 30 April 2017, we have launched seven more flagship stores on Tmall, for the sale of products distributed by us in the PRC, such as construction toys, wooden toys, electronic products, action figures, baby strollers, infant car seats, and accessories for infants. These online stores offer products under the brands of Chicco, K's kids, OXO, Aprica or Silverlit. In addition to Tmall, we have also launched two online stores on JD.com, namely, Kidsland flagship store and Babyland flagship store.

As at the Latest Practicable Date, we established ten flagship online stores on Tmall and two online stores on JD.com. We also launched a Kidsland store on Xiaohongshu (小紅書), a mobile application of online consumer platform operated by an Independent Third Party, in August 2017 which provides its registered users with a platform to purchase our selected products and other products on mobile phones. Other than our online Kidsland store, each of our online stores offers flagship products under its respective brand.

Revenue contribution from our online stores

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from our own online stores on third party online platforms amounted to approximately HK$59.5 million, HK$33.1 million, HK$65.3 million and HK$18.7 million, respectively, representing approximately 4.5%, 2.1%, 4.0% and 3.3%, respectively, of our revenue for the corresponding periods. To the best of our knowledge and belief, all of the operators of online platforms on which we operate online stores are Independent Third Parties.

We have engaged an Independent Third Party agency to monitor the retail prices offered by online stores of our distributors and of online key accounts to avoid intense price competition. Such Independent Third Party agency generally provides us with reports on a weekly basis. We take follow-up actions with the relevant distributors or online key accounts when we become aware of any difference in the actual retail prices offered by online stores of distributors or online key accounts as compared with our recommended retail prices or our pricing guidance on selected products which we offer promotional discounts. Warnings are given to those who fail to comply with our pricing policy first. If such distributor or online key account disregards our warning, we may report to the operators of the relevant online platforms requesting links to relevant products to be removed. Our online stores allow online shoppers to access to a wide range of products available at our retail shops or consignment counters, whereas online stores operated by our distributors or online key accounts only stock a limited range of products or brands. We aim to improve the product description, service quality and logistic capabilities of our online stores to increase sales and enhance the overall brand images of our products. We believe that once the level of brand awareness increases among the online shoppers, demand for our products will be stronger and our distributors or online key accounts would need to continue to replenish their stock from us.

New retail points to be opened under our existing self-operated retail channels

We plan to increase under our existing self-operated retail channels the number of our retail points (on a net basis) in the PRC and Hong Kong by approximately 44 in the six months ending 31 December 2017 and by approximately 63 and 71 in 2018 and 2019, respectively. The expansion costs are planned to be funded by our internal resources and the net proceeds from the Global Offering. Depending on the locations and sizes of these retail points, we anticipate our capital expenditures (which primarily relate to store decoration and equipment and facilities) that will be used for such expansion of our retail network for the six months ending 31 December 2017, FY2018 and FY2019 will be approximately HK$22.8 million, HK$27.5 million and HK$27.9 million, respectively. Apart from such capital expenditure, opening of additional retail stores under our existing self-operated retail channels entails additional operating expenses to be incurred, (including, for instance, additional remunerations for extra manpower, additional inventory costs, monthly lease rentals and management fees, promotion and marketing expenses) and installation and upgrading of information technology systems (including points-of-sale accounting and inventory systems for new retail points). It is anticipated that the additional operating expenses and the expense for information technology upgrading for the six months ending 31 December 2017, FY2018 and FY2019 will be approximately HK$43.9 million, HK$101.3 million and HK$93.5 million, respectively. Some of such additional operating expenses and the expense for information technology upgrading will be funded by the net proceeds from the Global Offering as well as our internal resources. The implementation of our expansion plan is subject to changes having regard to factors such as the availability of suitable locations, the general economic environment and our financial conditions.

We plan to open three flagship stores under the brand name of a potential business partner in the PRC. We plan to open such first flagship store in the second half of 2018, and two other flagship stores in the first half of 2019. For details of our plan, please refer to the paragraph headed "Business strategies – Increasing our penetration of existing sales channels and expanding our geographic coverage to additional cities with high growth potential in the PRC, and to Hong Kong" in this section.

The following table sets out a breakdown, by types and by tiers of cities in the PRC, of our current expansion plans for our retail network for the periods indicated:

	For the six months ending 31 December 2017	**2018**	**2019**
Estimated number of retail points			
By type			
Retail shops			
• Kidsland store	16	22	30
• Babyland store	–	3	3
• Lego Certified Store			
– China	2	7	8
– Hong Kong	2	1	–
• Flagship store	–	1	2
Consignment counters	24	30	30
Total	44	64	73

	For the six months ending 31 December 2017	2018	2019
By tier of cities in the PRC			
• Tier 1 cities	15	26	27
• Tier 2 cities	17	27	30
• Tier 3 cities	10	10	16
• Hong Kong	2	1	–
Total	44	64	73

Based on our recent performance, it generally took a consignment counter and a retail shop in our retail network:

- approximately three to five months and approximately four to ten months, respectively, to reach the Breakeven Point for three consecutive months; and

- approximately three to five months and approximately 12 to 18 months, respectively, to reach the Investment Payback Point.

The length of time required for a retail point to reach the Breakeven Point or the Investment Payback Point is affected by a variety of factors, including (among others) the type, size, location and opening times of the retail point, the expenditures of securing the location for and opening the retail point, the economic and other conditions in the market in which the retail point operates and competition. Such time varies substantially from retail point to retail point and over time. It is possible that a retail point may not reach the Breakeven Point or the Investment Payback Point until after a prolonged period of time, or at all.

We plan to open new retail points mainly in shopping malls or department stores, as they attract steady flow of customers offering all-under-one-roof shopping experience. When selecting locations for our new retail points, we consider various factors including the foot traffic around the department stores or shopping malls (and in particular, their children's zones), consumer buying power and patterns, as well a rentals and other costs and expenses. For further details of our expansion plans, please refer to the paragraph headed "Business strategies" in this section and the section headed "Future Plans and Use of Proceeds" in this prospectus.

Wholesale channels

In addition to self-operated retail channels, we also distribute our products through our wholesale channels, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC.

We have been wholesaling our products through distributors since 2000s. Our distributors are broadly categorised into (i) offline distributors; and (ii) online distributors. These distributors purchase our products and then on sell them to through their own retail shops or third party retailers. We also sell our products to hypermarket and supermarket chains and online key accounts.

Distributors

As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had 573, 694, 805 and 878 distributors, respectively. As at 30 April 2017, our distributors operated a total of over 2,700 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. To the best of our knowledge and belief, all of our distributors are Independent Third Parties. During the Track Record Period, we were aware that there was an increasing number of distributors launching online stores on third party-operated online platforms. As at 30 April 2017, of the 878 distributors, about 19.4% of our distributors operated online stores.

Selling our products to distributors allows us to utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position. Under the distributorship business model, when selecting distributors, we take into account a number of factors, including their geographical base, locations of their retail points, distribution network, experience in retail and management, management style, business strategies, financial resources, delivery capabilities and warehousing capacities. During the Track Record Period, none of our distributors were our former employees or our sales partners who traded under our Group's name.

Our relationships with our distributors are essentially of seller-buyer nature. As we held 26 international toy and infant product brands under one roof as at 30 April 2017, our distributors can source efficiently from a single source (i.e. our Group) different varieties of high-quality toys and infant products.

Most of our distributors are required to make payment to us before our delivery of products. Revenue from our wholesale to distributors is recognised when goods are delivered, that is when the related risks and titles of the products are passed to the distributors. For further details, please refer to the section headed "Financial Information – Critical accounting policies and estimates – Revenue recognition" in this prospectus. We generally are not involved in the management of our distributors, other than monitoring whether our online distributors observe our nation-wide recommended pricing range or our pricing guidance on selected products which we offer promotional discounts and whether there is potential intellectual property infringement.

Major terms of distributorship agreements with our distributors

It is our general practice to enter into our standard distributorship agreement with our distributors for the sale of our products in the PRC. Such distributorship agreement contains substantially the same terms. We review the performance of our distributors on a regular basis. Some of the major terms of the distributorship agreements are summarised below:

- Term – The term of agreement is usually eight months to one year, and is renewable upon mutual agreement.

- Geographic exclusivity and duration – Our distributors usually only have non-exclusive rights to sell our products within designated geographical area or distribution channels as specified in their respective distributorship agreements for a period as provided in the agreements.

- Product exclusivity – Our distributors are required to source products from us and are not allowed to source products of the same brands from other suppliers.

- Deposit – Some distributors are required to pay a deposit of about RMB20,000, which is refundable after expiry or earlier termination of the distributorship agreement.

- Purchase price – Our products are sold to the distributors at different discount levels to the nation-wide recommended retail prices, and the extent of discount depends on factors such as the number of years of their business relationship with us, geographic coverage, size of the distributors, historical purchase amount and payment records.

- Payment, credit terms and delivery – Generally, purchase price must be paid to us before delivery of our products. We invoice our distributors before our delivery of products and the sales of our products are recognised as revenue when our products leave our distribution centres/are delivered to the premises designated by the distributors. Our distributors generally bear the costs of delivery and insurance.

- Sales targets – If any distributor fails to meet the sales targets specified in the distributorship agreements for three consecutive months or six months on a cumulative basis, without any significant improvement after repeated warnings, we have the right to reduce the level of sales discount or terminate the agreement.

- Sales and pricing policies – Our distributors are required to follow our nation-wide recommended retail price or pricing guidance for selling our products. The market selling price may be adjusted upward or downward within a pre-determined band, or may be further revised after having received our prior approval. Retail promotion discounts at stores operated by our distributors must be approved by us in advance.

- Exchange of goods – Our distributors are allowed to exchange slow moving products or products that are defective. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, the amount of exchanged products from our distributors amounted to approximately HK$5.5 million, HK$6.9 million, HK$7.3 million and HK$2.1 million, respectively, representing approximately 1.4%, 1.3%, 1.4% and 1.4%, respectively, of our revenue generated from sales to distributors for the corresponding periods.

- Obsolete stock arrangement – Distributors with excess inventory or slow moving products may exchange these products with us every three to six months, on the condition that the value of exchanged products shall not exceed 3% to 5% of the value of the products sold to the relevant distributors in the preceding three to six months.

  For the slow moving products returned from distributors, it is our normal practice to sell them via our outlet shops or through promotional activities at a discount.

- Inventory level – We require our distributors to maintain at least six weeks' inventory to meet the demand from end-users.

- Sales reports with information feedback – Distributors are required to provide us with sales reports on a monthly basis.

- Brand image – Our distributors are required to comply with the guidelines and policies set by our brand owners in respect of the use of their trademarks. Subject to such compliance, they may use the trademarks for the promotion and sales of products sourced from us.

- Rights to terminate distributorship agreement – We reserve the right to terminate a distributorship agreement, if the distributor ceases its operation, breaches any material terms of the distributorship agreement, engages in selling counterfeit products or changes its management team which cause the distributorship agreement cannot be performed.

We occasionally provide support to our distributors on the provision of display items and marketing materials in order to ensure brand image consistency.

Movement in the number of distributors

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

	As at/for the year ended 31 December 2014	2015	2016	As at/for the four months ended 30 April 2017	As at/for the four months ended 31 August 2017
Distributors					
At the beginning of the period	469	573	694	805	878
Addition of new distributors	248	277	290	111	126
Expiry without renewal of agreements with distributors	(144)	(156)	(179)	(38)	(85)
Net increase in the number of distributors	104	121	111	73	41
At the end of the period	573	694	805	878	919

During the Track Record Period, we did not terminate any distributorship agreements with our distributors prior to the expiry dates. As for those distributorship agreements expired without renewal, it was mostly on the grounds of their less satisfactory sales performance or the owners of distributors switching to new fields of work.

We generally offer sales rebates to our distributors, ranging from 2% to 5% of sales, as incentive when their sale targets for specified products are reached or exceeded. Sales rebates are not paid in cash, but are deducted from the purchase amount under the distributors' next purchase orders. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, the amount of sales rebates offered to our distributors amounted to approximately HK$4.5 million, HK$4.8 million, HK$21.2 million and HK$8.8 million, respectively, representing approximately 1.1%, 0.9%, 4.1% and 5.8%, respectively, of our revenue generated from sales to distributors for the corresponding periods. The increase in the amount of sales rebates from approximately HK$4.8 million in FY2015 to approximately HK$21.2 million in FY2016 was mainly due to lower discount rates offered by us in FY2016 which allowed us to increase the level of sales rebates to our distributors.

None of our Directors or their respective close associates or any of our Shareholder (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our distributors during the Track Record Period.

Revenue contribution from wholesales to distributors

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from wholesales to distributors amounted to approximately HK$406.1 million, HK$528.0 million, HK$514.2 million and HK$151.7 million, respectively, representing approximately 30.7%, 33.8%, 31.4% and 26.8%, respectively, of our revenue for the corresponding periods. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from our five largest distributors amounted to approximately HK$70.5 million, HK$78.5 million, HK$101.2 million and HK$27.1 million, respectively, representing approximately 5.3%, 5.0%, 6.2% and 5.4%, respectively, of our revenue for the corresponding periods. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from our largest distributor amounted to approximately HK$21.3 million, HK$17.7 million, HK$26.5 million and HK$7.1 million, respectively, representing approximately 1.6%, 1.1%, 1.6% and 1.4%, respectively, of our revenue for the corresponding periods.

Management of our distributors

We have a dedicated group of staff organised as teams for managing and monitoring our distributors' performance, in particular, their compliance with the nation-wide recommended retail price and our pricing guidance on selected products which we offer promotional discounts. Our team members visit our distributors at least once every one to two months so that we can obtain first hand information about the sales performance of our distributors and also direct feedback on our products from the end-customers. In addition, we also regularly get updated information about the number of retail shops operated by our distributors. By paying frequent visits to our distributors, we can also be assured that growth generated from sales of our products to our distributors are driven by real market demands rather than stocking at their warehouses. We believe that the terms of our standard distributorship agreements discourage our distributors from stocking up for the following reasons: (i) products are fully paid before delivery; (ii) we do not accept return of products; and (iii) our sales rebates are paid in the form of discount on products in subsequent purchases and are calculated based on the actual proceeds of sales.

We review and analyse the sales reports submitted by our distributors. By doing so, we obtain information about third party retailers, selling prices and sales volume. As at 30 April 2017, 78.4% of our distributors operated retail shops at which they sold our products to end-users.

To minimise the risk of cannibalisation among our distributors, we adopt the following measures: (i) monitoring and managing the number of distributors in each designated geographical area; (ii) maintaining regular communication with our distributors; and (iii) analysing the sales reports received from our distributors. Moreover, we do not impose minimum purchase requirement on distributors.

From time to time, we provide training to representatives of our distributors in order for them to be familiarised with our products. Each year, we also invite our distributors to our private show where we showcase selected toys or infant products launched or to be launched by our brand owners. For details of the private show, please refer to the paragraph headed "Sales and marketing – trade marketing – trade fairs" in this section. For distributors which have achieved our certain purchase amount, we provide product display items and marketing materials which reinforce brand image and highlight marketing themes.

We believe that we maintain generally good relationships with our distributors. During the Track Record Period, we did not have any dispute, nor were we a party to any legal or arbitration proceedings with any of our distributors.

Hypermarket and supermarket chains

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

We sell our products to hypermarket and supermarket chains on a wholesale basis. As at 31 December 2014, 2015 and 2016 and 30 April 2017, we had wholesale arrangement with seven, eight, 12 and 12 hypermarket and supermarket chains in the PRC, respectively. As at 31 December 2014, 2015 and 2016 and 30 April 2017, these hypermarket and supermarket chains had 362, 326, 629 and 635 retails points in Tier 1, 2 and 3 cities, respectively (based on the information provided by the hypermarket and supermarket chains). To the best of our knowledge and belief, all of the hypermarket and supermarket chains are Independent Third Parties. The rapid increase in number of retail points from 2015 to 2016 was partly due to (i) the increase in number of hypermarket and supermarket chains purchasing from us; and (ii) the increase in the number of sales points of one of the convenience store chains in distributing our products.

Major terms of sales agreement with our hypermarket and supermarket chains

Specific terms of agreements made by us with hypermarket and supermarket chains vary, and typically include the following:

- Title and risk – Title to the products and the related risk are passed to the hypermarket and supermarket chains, once the products are delivered to the designated delivery points of hypermarket and supermarket chains.

- Payment terms – Hypermarket and supermarket chains generally have a credit period of 30 days to 60 days from the date of delivery.

- Product return or exchange – For some hypermarket and supermarket chains, our products may be returned to us or exchanged, only on grounds specified in the agreements, within a specified period of time from the date of delivery.

- Sales rebates – Hypermarket and supermarket chains are entitled to sales rebates if certain purchase amount target has been reached.

- Promotion management – We collaborate with hypermarket and supermarket chains to participate in certain seasonal promotional campaigns. From time to time, we provide sales promoters to hypermarkets and supermarkets to sell and promote our products.

Movement in the number of hypermarket and supermarket chains to which we distribute

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

	As at/for the year ended 31 December			As at/for the four months ended	As at/for the four months ended
	2014	2015	2016	30 April 2017	31 August 2017
Hypermarket and supermarket chains					
At the beginning of the period	6	7	8	12	12
Addition of new hypermarket and supermarket chains	1	3	4	1	2
Termination of or expiry without renewal of agreement with hypermarket and supermarket chains	–	(2)	–	(1)	–
Net increase in the number of hypermarket and supermarket chains	1	1	4	–	2
At the end of the period	7	8	12	12	14

During the Track Record Period, we had wholesale arrangements with convenience stores, community supermarkets and upscale supermarkets.

None of our Directors or their respective close associates or any of our Shareholder (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of the hypermarket and supermarket chains to whom we sold our products during the Track Record Period.

Revenue contribution from wholesales to our hypermarket and supermarket chains

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from hypermarkets and supermarkets amounted to approximately HK$39.4 million, HK$34.6 million, HK$36.0 million and HK$12.5 million, respectively, representing approximately 3.0%, 2.2%, 2.2% and 2.2%, respectively, of our revenue for the corresponding periods.

Online key accounts

Online shopping has rapidly grown to become one of the mainstream distribution channels in the PRC. To access this rapidly growing online market, our products are sold through the online platforms of our online key accounts, such as JD.com, Amazon, VIP.com, Dangdang and Suning. We select our online key accounts on the basis of their reputation, financial condition and market share. To the best of our knowledge and belief, all these online key accounts are Independent Third Parties.

Major terms of sales agreement with our online key accounts

We enter into sales agreements with our online key accounts. Our online key accounts purchase products from us as principal and then on-sell the products to end-users through their online platforms.

The contractual terms of sales agreement entered into by us with online key accounts are not standardised. The following are some common item, which may differ for different online key accounts:

- Term – The term of sales agreement is generally one year. Some sales agreements are automatically renewed upon expiration.

- Sales targets and incentive scheme – We designate quarterly or annual sales targets for some of our online key accounts, and provide sales rebates as incentives when their purchases from us reach or exceed these sales targets. The sales rebates are determined by us and we deduct them from the purchase price payable by the online key accounts on a quarterly and annual basis. If these online key accounts fail to reach their quarterly or annual sales targets, no sales rebates will be given.

- Delivery and revenue recognition – We recognise revenue from sales to our online key accounts upon delivery of the products to them. Deliveries to our online key accounts' warehouses are handled by third-party logistics service providers and delivery costs are generally borne by us.

- Return and exchange – Generally, our online key accounts can return or exchange defective products. In some cases, sales subsidiaries or rebates are provided to online key accounts.

- Credit and Payment terms – Some online key accounts have a credit period of up to 60 days from the date of delivery or invoice. Our sales to our online key accounts are generally settled in RMB via wire transfers.

- Termination – Our sales agreements with our online key accounts may be terminated by either party upon the occurrence of certain specified events, such as bankruptcy or insolvency of the counterparty.

For some online key accounts, we generally are given access to their electronic sales and inventory recording system and allow us to access information in such system, and we can conduct real time reconciliation of sales and inventory records.

Movement in the number of online key accounts

The following table sets forth the number of online key accounts for the periods indicated:

	As at/for the year ended 31 December			As at/for the four months ended	As at/for the four months ended 31
	2014	**2015**	**2016**	**30 April 2017**	**August 2017**
Online key accounts					
At the beginning of the period	8	11	11	14	15
Addition of new online key accounts	3	–	4	1	2
Expiry without renewal of agreements with online key accounts	–	–	(1)	(–)	(1)
Net increase in the number of online key accounts	3	–	3	1	1
At the end of the period	11	11	14	15	16

During the Track Record Period, the number of our online key accounts was relatively stable.

None of our Directors or their respective close associates or any of our Shareholder (who to the knowledge of our Directors owned more than 5% of the issued share capital) had any interest in the online key accounts to whom we sold our products during the Track Record Period.

Revenue contribution from wholesales to our online key accounts

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, revenue generated from online key accounts amounted to approximately HK$67.7 million, HK$37.6 million, HK$40.5 million and HK$10.6 million, respectively, representing approximately 53.2%, 53.2%, 38.3% and 36.2%, respectively, of our revenue from online sales (i.e. the denominator is the total of (i) revenue attributable to such online key accounts and (ii) revenue attributable to our self-operated online retail stores), and approximately 5.1%, 2.4%, 2.5% and 1.8%, respectively, of our revenue for the corresponding periods.

OUR CUSTOMERS

Our customers consist of mainly end-users, distributors, hypermarket and supermarket chains and online key accounts. End-users include those who purchase products directly from us through our retail shops, consignment counters or from our online stores.

Our five largest customers

The following table sets forth our five largest customers (being our wholesale customers), types of products distributed by them, number of years of business relationship with us and their background during the Track Record Period:

FY2014

	Five largest customers for FY2014	Types of products distributed	No. of years of business relationship with us	Background of the wholesale customer
1.	Customer A	Toys and infant products	5	Operator of online shopping mall
2.	Customer B	Toys	8	Distributor of household goods, toys and handcrafted goods
3.	Customer C	Toys and infant products	16	Hypermarket chain
4.	Customer D	Toys	8	Operator of online shopping mall
5.	Customer E	Toys	6	Online retailer of toys and infant products

FY2015

	Five largest customers for FY2015	Types of products distributed	No. of years of business relationship with us	Background of the wholesale customer
1.	Customer B	Toys	8	Distributor of household goods, toys and handcrafted goods
2.	Customer F	Toys	6	Distributor of toys and electronic products
3.	Customer A	Toys and infant products	5	Operator of online shopping mall
4.	Customer G	Toys	7	Distributor of household goods, toys and handcrafted goods
5.	Customer E	Toys	6	Online retailer of toys and infant products

FY2016

	Five largest customers for FY2016	Types of products distributed	No. of years of business relationship with us	Background of the wholesale customer
1.	Customer F	Toys	6	Distributor of toys and electronic products
2.	Customer B	Toys	8	Distributor of household goods, toys and handcrafted goods
3.	Customer C	Toys and infant products	16	Hypermarket chain
4.	Customer G	Toys	7	Distributor of household goods, toys and handcrafted goods
5.	Customer H	Toys	1	Distributor of toys and household goods

Four months ended 30 April 2017

Ranking	Five largest customers for the four months ended 30 April 2017	Types of products distributed	No. of years of business relationship with us	Background of the wholesale customer
1.	Customer H	Toys	1	Distributor of toys and household goods
2.	Customer C	Toys and infant products	16	Hypermarket chain
3.	Customer I	Toys	1	Distributor of toys
4.	Customer A	Toys and infant products	5	Operator of online shopping mall
5.	Customer F	Toys	6	Distributor of toys and electronic products

We have a diversified customer base. As at 30 April 2017, we entered into distributorship or sales agreements with 878 distributors, 12 hypermarket and supermarket chains and 15 online key accounts. For each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, revenue generated from our five largest customers, in aggregate, accounted for less than 10%, respectively, of our revenue. We generally grant our wholesale customers credit period ranging from 0 day to 60 days and receive payment from our wholesale customers via telegraphic transfer.

As at 30 April 2017, the business relationships with our five largest customers ranged from one to 16 years. We have developed and maintained long term business relationships with most of our customers even though we have not entered into any long-term distributorship agreements with them.

None of our Directors, their respective close associates or any of our Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers during the Track Record Period.

As the products are diverse and various, whether in terms of brands, types and lines of products, it is not unusual for our retail points situating close to each other in the same department store or the same shopping mall. There are also occasions that our customers (such as hypermarket and supermarket chains or distributors) may also have presence and sell our products in the same shopping mall. We believe that competition among our retail shops, distributor-operated retail shops and hypermarket and supermarket chains is limited as our retail shops sell various diverse products and appeal to different target consumer groups.

SALES AND MARKETING

We have a dedicated marketing team which is responsible for formulating and coordinating marketing activities and promotion campaigns. As at 30 April 2017, our marketing team consisted of 51 members who worked closely with other teams and/or our brand owners to execute marketing strategies. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our marketing expenses amounted to approximately HK$29.4 million, HK$40.1 million, HK$28.3 million and HK$11.3 million, respectively, representing approximately 2.2%, 2.6%, 1.7% and 2.0%, respectively, of our revenue for the corresponding periods.

We strive to have our retail shops designed and decorated to present a consistent and distinctive brand image from the design and colour of the stores to the merchandise display and staff uniforms.

We believe that the image our retail shop projects into the market place is essential to attracting end-users. In 2016, we engaged an Independent Third Party consulting company to explore a new store image for our retail shops. A retail shop with new store image was unveiled in Hangzhou and we plan to roll out this new store image to the rest of our retail shops in our retail network. Below are pictures of some of our retail shops:

Our sales and marketing activities usually aim at promoting our own brands (i.e. Kidsland and Babyland), the brands of our brand owners, certain products when they are first launched and/or during seasonal holiday periods.

Brand marketing – marketing activities to promote Kidsland and Babyland brands

We believe that our Kidsland and Babyland brands are instrumental to the success of our retail business. In order to enhance and define our brand image, we entered into an agreement with an Independent Third Party consulting company to build, manage and promote our brands in accordance with our business strategies. Our sales and marketing team works closely with the Independent Third Party consulting company to promote our brands through various channels and methods, including television commercials and online advertising.

Our brand marketing programme puts emphasis on our goal to serve the needs of parents, their children and those who are "young" at heart. Our core mission is to excite curiosity, which is reflected in our business motto "Inspire the curiosity about the world and preserve a child-like imagination" ("激發對世界的好奇,保持童真般的快樂") As such, our advertising slogan is curiosity at play "Curiosity at Play" ("好奇心、快樂心"). In connection with our brand positioning, we have adopted "凱知樂" as the new Chinese translation of Kidsland to promote our corporate image and culture, and our corporate logo kidsland is displayed at some of our retail shops across the PRC to ensure consistent brand recognition.

Brand marketing – joint marketing activities with our brand owners

Since not all of our brand owners have a marketing team in the PRC, some of them will rely on us to increase brand awareness of their products. Under some distributorship agreements, brand owners have agreed to provide additional marketing support in the form of monetary contribution which is calculated as a percentage of the actual purchase amount, if our purchase costs from them exceed the minimum annual purchase amount. Our marketing plans, materials and artwork in connection with such marketing activities usually have to be approved by our brand owners in advance.

Trade marketing – promotional activities

We organise promotional events for festivals, holiday seasons, anniversary sale and grand opening sale. We also conduct marketing events from time to time at major shopping malls (for example, launching of pop-up stores). We believe that pop-up stores allow us to manage and evaluate new trading locations on a trial basis or create a favourable business environment around our existing retail shops. We typically coordinate marketing events with shopping malls where we operate retail shops to promote new brands or new products. During the Track Record Period, we organised more than 100 shopping mall events. Below are pictures of two of our shopping mall events of our products:

Trade marketing – trade fairs

In addition to store marketing and promotional activities, we attend various trade fairs in the PRC each year with a view to promoting awareness of our brands (i.e. Kidsland and Babyland) and our brand owners' brands or new products and meeting our existing and potential brand owners and distributors. During the Track Record Period, we participated in China Toy Expo (中國玩具展) and Shanghai International Children Baby Maternity Industry Expo (CBME中國孕嬰童展、童裝展) which was held in October and July of each year, respectively. New products are typically launched at Guangzhou International Toy & Hobby Fair (廣州國際玩具及模型展覽會) which is usually attended by our distributors and held in April of each year. During the period of this trade fair, we invite our selected distributors to our private show held at another venue where we showcase selected toys or infant products launched or to be launched by brand owners. In 2017, we were invited to participate in China Kids Expo (中國國際嬰童用品展覽會). Below are pictures of our booth at trade fairs:

Digital marketing activities

Our marketing activities are also disseminated through internet and mobile media and social media platforms, which appeal to the new generation of consumers. Consumers may access our official company website (**www.kidslandchina.com**) and Weibo (kidsland 凱知樂) (微博) to obtain information about our brands, store locations, latest products and promotional events. We also conduct marketing activities through WeChat (微信) which allow us to boost our reach among the new generation.

In Hong Kong, we focus our promotion activities on the internet and mobile media platforms. We have outsourced our marketing function to a marketing agency, Captcha Media, which is a connected person of our Company. Captcha Media is owned as to 84% by Strategenes Limited, which is in turn wholly-owned by Dr. Lo, one of our executive Directors and his spouse. For details of the arrangement with this connected person, please refer to the section headed "Connected Transactions – Continuing connected transactions which are subject to the reporting, annual review and announcement, but exempt from the circular, independent financial advice and independent shareholders' approval requirements – 2. Master Services Agreement with Captcha Media" in this prospectus.

Membership programme

We have established a membership programme. As at 30 April 2017, we had a total of about 1.1 million members. Our members can earn 1 point for every RMB of purchase at our designated retail shops. As at the Latest Practicable Date, an end-user who spends a prescribed amount in one purchase or has accumulated spending of a prescribed amount over a prescribed period is entitled to certain discount from the normal sale price in the month of birthday. A member who has accumulated spending of a prescribed amount is entitled to become our VIP member. VIP members can earn double points for every RMB of purchase. Members are entitled to certain free gifts or coupons or use membership points to make payment of our products. Membership points can be accumulated, but any unclaimed membership points by the end of the following year will be forfeited. As the membership points are only valid during the period between the date of purchase and the end of the following year of purchase and cannot be carried forward after the end of the period, the revenue in relation to the membership programme has been realised and the respective costs of the free gifts have been provided as incurred upon redemption in each of the respective years. A provision of approximately HK$0.9 million for deferred revenue was made at 30 April 2017.

We plan to expend additional efforts to develop such membership programme, so that it will allow us to collect information about our end-users' spending behaviour, such as product preference, payment method and seasonal factors. By analyzing the data and information, we may formulate our marketing campaigns more precisely to cater for the needs and demands of our end-users.

INFORMATION TECHNOLOGY SYSTEMS

Our information technology systems are critical to our effective management and business development. We maintain security of our information technology systems which covers cyber security, application security, data security and terminal security through various technologies including encryption, anti-virus software and firewall. We continuously upgrade such technologies to enhance our information security management and implement strict measures to protect and secure confidentiality of customer/membership data. For example, access to customer/membership data is only limited to selected authorised staff who are provided with an encrypted password and key data is only stored and transmitted within our intranet to avoid exposure to public internet. Furthermore, we conduct regular information security training for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management.

In May 2017, we entered into a service agreement with an information technology service provider ("**IT Service Provider**"), which is an Independent Third Party, pursuant to which the IT Service Provider agreed to provide various types of services including provision of virtual hosting server, cloud computing and bandwidth service to our Group. Information of our members, among others, are stored in the cloud platform of the IT Service Provider. To prevent the information of our member from being lost, the IT Service Provider has a complete information safety management system in place covering, among others, firewall, invasion detection and data encryption.

PROCUREMENT AND ORDERING PROCESS

Procurement process with our brand owners

The procurement process differs from one brand owner to another. Generally, we place orders with a brand owner from time to time having regard to our sale and inventory forecast, the expected delivery time and the business plan agreed by us with such brand owner. Delivery time for each brand varies depending on the manufacturing base or warehouse of the brand owner. During the Track Record Period, we did not experience any material delay or shortage of products in connection with the procurement of products from our brand owners.

Generally, we make payment of purchase prices after product delivery or the brand owner's issue of invoice (as the case may be), and we have a credit period of 60 days to 90 days from the date of delivery or invoice.

Ordering process of our distributors and our own retail system

Our wholesale customers place orders with us from time to time. We review and analyse these orders, together with our internal forecast and historical sales trend, and determine the final supply quantity to be distributed to each of our wholesale customers. Except for some hypermarket and supermarket chains and online key accounts, we require all of our wholesale customers to make payment before our delivery of the products.

We manage the orders from our wholesale customers and our own retail points under different systems. Shop manager of each retail point usually formulate sales target of particular products for each retail point on an annual basis, which will be further broken down to target sales on monthly and weekly basis. Sales target will be adjusted having regard to the actual performance. Orders for particular products are given from each retail point to our regional distribution centre, and our logistics department will then arrange for delivery of the relevant products to each retail point based on such orders.

LOGISTICS AND INVENTORY MANAGEMENT

Distribution Centre Management

As at the Latest Practicable Date, we leased and operated three main distribution centres and some ancillary distribution centres with an aggregate GFA of approximately 46,500 sq.m.. Most of these distribution centres are located in Beijing, Shanghai and Guangzhou respectively, and allow us to deliver efficiently our products to our retail points or delivery points designated by our wholesale customers.

All of our distribution centres are equipped with WMS system which is linked to the ERP system at our regional offices. Products ordered from our brand owners are delivered to store at our distribution centres, before we distribute them to our retail points or our distributors. Upon arrival of our products, we check the quantity and quality of our products against our actual orders in order to identify any damages and/or quantity discrepancies, and will record the batch number and details of each product in the WMS system.

When our staff at the distribution centre receive instructions to make delivery of products from our distribution centres, we require our staff to register the related batch number in the WMS system.

Transportation and Logistics

Our products are usually delivered to our distribution centres by our brand owners or their logistics agents, before we distribute them to our retail points or delivery points designated by our wholesale customers. Some brand owners require us to arrange for pick up of products from their warehouses to our distribution centres.

During the Track Record Period, we did not own any fleet of trucks for product-transport purpose, but engaged a total of 18 logistics service providers to arrange for transport of our products from the brand owners' warehouses to our distribution centres or from our distribution centres to our retail points or delivery points designated by our wholesale customers. To the best of our knowledge and belief, all of these logistics service providers are Independent Third Parties. These logistics service providers are responsible for any loss that may arise during transportation.

Management Information System

An IPOS system is installed at each of our retail shops and consignment counters, which is linked to our ERP system at each regional office and headquarters. Our shop manager at each of our retail shops and consignment counters is required to upload sales information to the IPOS system at the end of each business day, which is linked to the ERP system, enabling our management team to monitor the sales performance and inventory level on a timely basis across our retail network and retrieve such information by brand, retail shop and geographical region. As such, we are able to monitor and manage the inventory level and optimise our sales planning more efficiently. If the inventory level in a specific retail shop or consignment counter becomes low, we will sometimes arrange for transfer of stocks from one retail shop (or consignment counter) to another.

Inventory control

Our shop managers at each retail shop or consignment counter is responsible for stock taking and monitoring of stock movement every month and uploading such information on our IPOS system. They are required to report back to our head office with the level of inventory and sales progress on a regular basis. Our regional office also conduct stock take at each distribution centre to ensure the accuracy of the records in our IPOS system.

We are generally allowed to gain access, on a regular basis, to the inventory records in respect of the products we distribute, which are maintained by operators of hypermarkets and supermarkets chains and some online key accounts. We rely on the sales orders by our distributors and the visits of our sales representatives to ascertain the inventory level of our products at our distributors.

During the Track Record Period, all of our inventories were finished products. Optimal inventory level varies from one brand to another, having regard to the location of the relevant brand owner's warehouses, delivery time required from our placing of orders, and the frequency and length of time of production of the relevant products by the brand owner. We need to maintain sufficient amount of inventories in our distribution centres to satisfy the demands of our self-operated retail channels and wholesale channels, and to support our expansion plan. As at 31 December 2014, 2015 and 2016 and 30 April 2017, the balance of inventories amounted to approximately HK$356.8 million, HK$441.9 million, HK$506.1 million, HK$482.7 million, respectively, representing approximately 50.5%, 57.6%, 56.7% and 58.6%, respectively, of our total current assets as at those dates. The average number of inventory turnover days of our Group for each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, is about 166 days, 188 days, 211 days and 206 days, respectively.

We monitor our inventory levels on a regular basis. Based on our sales experience, we prepare (on a monthly basis) a sales forecast for our internal reference and a monthly ordering forecast for our brand owners' reference. Our procurement team will place orders based on the sales forecast and the inventory level at the material time in our storage.

We have established policies with regard to inventory management, such as a labelling system to categorise different batches of products and items for the products distributed by us. We have also put in place security system to protect and prevent our inventory from theft, embezzlement and damages. Insurance policies have been effected to cover accidental loss or damage of our inventory. For details of our insurance coverage in respect of our inventory, please refer to paragraph headed "Insurance coverage" in this section.

During the Track Record Period, the allowance for inventories, net for FY2014 and 2015 amounted to approximately HK$5.7 million and HK$4.7 million. For FY2016, a reversal of allowance for inventories, net amounted to approximately HK$3.2 million. For the four months ended 30 April 2017, the allowance for inventories, net amounted to approximately HK$4.6 million.

COMPETITION

Our products are diverse and various, whether in terms of brands, types and lines of products. It is not unusual for our retail points situating close to each other in the same department store or the same shopping mall. There are also occasions that our end-customers (such as hypermarket and supermarket chains or distributors) may also have presence and sell our products in the same shopping mall. We believe that competition among our retail shops, distributor-operated retail shops and hypermarket and supermarket chains is limited as our retail shops sell various diverse products and appeal to different target consumer groups.

The PRC market for toys and infant products is a highly competitive field, but the demand for high quality toys and infant products has been growing steadily in recent years, in line with economic growth in the PRC. We face competition from several international toy store chains as well as other up and coming local toy specialty stores. We believe that we compete on the basis of brand image, product mix, quality, price, customer service and the breadth of our retail and wholesale network. For a description of some of the risks associated with the competition we face, please refer to the section headed "Risk Factors – Risks Relating to Our Business – We operate in a highly competitive and fast changing market and increased competition may result in a loss of our market share in the PRC" in this prospectus.

We believe that we have the following competitive edges over our competitors in the PRC:

- Strong and established position in the PRC toy retailing market;
- Stable and seasoned management team with industry experience;
- Diverse retail network covering strategic locations in the PRC;
- Extensive distribution network through different sales channels across the PRC;
- Exclusive rights with broad product offerings and high quality international branded products; and
- Pleasant shopping experience with quality services.

As a result, we believe that potential competition on a nationwide level is limited given the width and depth of toys and infant products that we offer and we are able to maintain the leading position as a retailer in terms of retail sales in 2016. However, we cannot assure you that we will be able to replicate our historical success, nor can we assure you that new entrants or existing competitors, whether domestic or international, will not be able to increase their market share in the PRC significantly. While we believe we currently have limited competitors on a nationwide level across the PRC, we continue to face competition from a variety of local retailers and distributors in each of the regions in which we operate.

HUMAN RESOURCES

Full-time employees

As at the Latest Practicable Date, we employed 617 full-time employees in the PRC and outsourced 1,638 full-time employees (the majority of whom were sales staff) to the HR Company mainly to assist us at our retail points (details of which, please refer to the paragraph headed "Human Resources – Outsourcing arrangement" in this section). As at the Latest Practicable Date, we employed 32 full-time employees in Hong Kong. We also employ temporary or part time promoters to assist in the marketing activities.

The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

Function	Number of employees
Executive officers	11
Sales and marketing	419
Procurement	5
Transport and logistics	80
Information technology	15
Finance and accounting	81
Human resources	27
Administration	11
Total:	649

Training

We generally arrange for induction training for new staff (including part-time sales staff). We also provide regular on-the-job training to our sales staff to enhance their sales and marketing skills as well as product know-how. We believe that these initiatives have contributed to increasing employee productivity. From time to time, we invite representatives of brand owners to conduct trainings on their latest products and industry trend.

Labour union

A labour union has been established at one of our Group members (namely, Beijing Haisile), which scope includes protection of the interest of the relevant staff members and encouragement of their participation in the management of the business of such Group member. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strike or labour dispute that materially and adversely affected our business or operation.

Outsourcing arrangement

In May 2017, we entered into an outsourcing agreement ("**Outsourcing Agreement**") with an Independent Third Party human resources company ("**HR Company**"), pursuant to which we outsourced to the HR Company the employment of some of our full-time employees (the majority of whom were our sales staff at retail points). As a result of such arrangement, those who were formerly our employees became employees of the HR Company. Accordingly, a substantial part of our cost of using sales staff and other outsourced employees previously booked as our staff costs and related expenses before May 2017 will in the future be booked as our service fee payable to the HR Company upon completion of such outsourcing arrangement. As at the Latest Practicable Date, save for the 41 employees, the majority of whom will be outsourced to the HR Company by the first half of 2018 due to personal reasons, we had outsourced 1,638 employees (the majority of whom were sales staff at retail points) to the HR Company. We have completed the employment outsourcing of our sales staff at retail points to the HR Company prior to Listing (other than the aforementioned sales staff).

We believe that the outsourcing arrangement enables our management team to continuously focus on our business missions and for more efficient and effective management of the sales staff, given the large and increasing number of sales staff with a large turnover rate in different parts of the PRC. As our business grows and our retail network is expected to continue to grow and expand to different parts of the PRC, including cities in lower tiers and are more remote, more sales staff will be required. Responsibilities related to personnel management have become increasingly burdensome as a result of such continuous growth. The Directors are of the view that outsourcing arrangement enables the management to re-align the focus on managing the business expansion and business development. We have therefore identified the HR Company which has local offices across the PRC and which has the requisite experience and expertise in recruiting and managing sales staff as a suitable partner for our purposes.

Notwithstanding the outsourcing arrangement, sales staff employed by the HR Company and deployed to our Group are required to observe and comply with the management system and policy of our retail points.

The holding company of the HR Company is under the direct administration of the State-Owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會) and is one of the 500 largest enterprises in the PRC. The HR Company was founded in 2001. The HR Company's headquarters are located in Beijing with 126 branch offices in 62 cities across the PRC. Certain information about the HR Company is as follows:

- Experience and expertise – The scope of services provided by the HR Company includes, among others, formulation and implementation of marketing plans, recruitment, training and management of sales staff, provision of market research and mystery shopping service. The HR Company was awarded "the best integrated human resources organisation for 2016-2017 in the greater China region" in 2017. It was also ranked the seventh among the global human resources service providers for 2016.

- Resources – To the best of our knowledge and belief, the HR Company has approximately 4,000 employees providing services for approximately 1.85 million employees of over 65,000 enterprises under outsourcing arrangements.

- Clients of the HR Company – To the best of our knowledge and belief, clients of the HR Company include multi-national corporations and listed companies operating in fast moving consumer goods industry.

Major terms of the Outsourcing Agreement include the following:

- Term – The Outsourcing Agreement has an initial term of three years which is automatically renewed upon expiration for subsequent one-year terms.

- Supply of sales staff – Based on the sales target and marketing strategy of our Group, the HR Company formulates an execution plan and provide sales staff to work at our retail points.

- Fees – The aggregate fees payable by us include (i) service fees; and (ii) management fees. The HR Company bears the cost of social insurance or similar employee benefits. Service fees are determined with reference to the costs incurred by the HR Company in providing services to us, and management fees are determined with reference to the number of outsourced sales staff. The fees are payable by us on a monthly basis.

While we no longer employ the sales staff of our retail points, we seek to ensure that they continue to provide high quality service to our end-users. We take the following measures to monitor the implementation of the execution plan formulated based on our strategy and which we have reviewed and approved to ensure the quality of the service at our retail points:

- Continuous monitoring – We monitor and provide feedback to the HR Company from time to time in respect of the quality of services provided by the sales staff or the scope of service provided by the HR Company. The HR Company shall respond and make proper corresponding adjustments in a timely manner.

- Visiting stores – Our regional sales team conducts periodic inspections of each retail point and occasional unannounced inspections to monitor the service quality of the sales staff, and notifies the HR Company of corrective measures that need to be taken with respect to those aspects that do not meet our standards.

- Compensation – HR Company takes into account our inspection results when making decisions about reward, penalty and promotions of the sales staff.

- Training – While the HR Company is responsible for delivering training to the sale staff, we provide the training materials, including the operation standard, business process, work discipline and risk management policy, and assistance as requested by the HR Company. We may also provide trainings to the sales staff from time to time to update their knowledge on our products.

By closely monitoring these sales staff, we believe our retail points are staffed with a well-trained work force that is knowledgeable of our products and attentive to our customers' needs.

As advised by our PRC Legal Advisers, (i) the Outsourcing Agreement is in compliance with the PRC Contract Law (中華人民共和國合同法) and other applicable PRC laws and regulations, and (ii) under the Outsourcing Agreement, (a) the HR Company allocates its appropriate personnel to provide sales services in our retail points, (b) the personnel are employees of the HR Company and subject to its management and control, (c) our Group accepts the services provided by the HR Company but has no right to directly manage or control the allocated personnel, (d) there is contractual relationship between our Group and the HR Company, however, there is no direct relationship between our Group and the allocated personnel, therefore, the arrangement does not constitute "labour dispatch" as defined in the Labor Contract Law and is not subject to the Interim Provisions on Labour Dispatch (Order No. 22 of Ministry of Human Resources and Social Securities) (中華人民共和國人力資源和社會保障部令第22號《勞務派遣暫行規定》).

Relationship with our staff

We believe that we have maintained good relationship with our employees and that our management policies, working environment, development opportunities and employee benefits have contributed to maintenance of good employee relations and employee retention. During the Track Record Period, we have not experienced any work stoppage or labour strike and have not experienced any significant difficulty in recruiting or retaining qualified staff.

INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights held by our Group

As at the Latest Practicable Date, our Group is the registered owner of 45 and four registered trademarks in the PRC and Hong Kong, respectively. We are also applying for registration of 16 trademarks in the PRC.

As at the Latest Practicable Date, we had registered domain names which are material to our business.

For details of intellectual property rights which are material to our business, please refer to the section headed "Statutory and General Information – B. Information about the Business – 2. Intellectual property rights of our Group" in Appendix IV to this prospectus.

Save for the trademarks and domain names disclosed in this prospectus, our business and profitability is not materially dependent on any trademark or other intellectual property rights.

We are not aware of there having been any material infringement of any intellectual property rights of our Group (or, as the case may be, licenced to our Group) which has an adverse effect on our business nor are we aware of any pending or threatened claims against us relating to the infringement of any intellectual property rights owned by third parties.

Intellectual property rights licenced by brand owners to our Group

Under the distributorship agreements made with our brand owners, we are generally licenced to use the brand names or trademarks of such brand owners or in respect of the relevant products in some of our sales and marketing activities. Notwithstanding such licence, our marketing plans, materials and artwork in connection with any sales and marketing activities usually have to be approved by our brand owners before launch or publication.

Counterfeit products

We are aware that certain counterfeit products bearing the brands of the products which we distribute, or of inferior quality under another brand are sold in the PRC market. We gather information about counterfeit products through our own staff and Independent Third Party agencies, who take charge of overseeing counterfeit products or through our distributors. When we notice the existence of counterfeit goods, we will report our findings to the relevant brand owners in accordance with our distributorship agreement. We usually do not take our own legal proceedings against the sellers of the suspected counterfeit products, as the time and costs required outweigh the benefits that may be brought from such proceedings. Our brand owners, however, may take legal proceedings against the relevant sellers direct.

During the Track Record Period, we were aware of large quantities of counterfeit products sold through online platforms, for example, Taobao. We usually report our findings to the operators of online platform, who will take steps to stop the relevant sellers from selling the counterfeit products.

In addition to counterfeit products, during the Track Record Period, we were aware of parallel imports of products which we are the sole or exclusive authorised dealers in the PRC. We usually bring our findings to the attention of the relevant brand owners. During the Track Record Period, none of the incidents of counterfeit products or parallel imports had any material adverse effect on our Group's operations.

PROPERTIES

Owned Properties

As at the Latest Practicable Date, we did not own any real properties.

Leased Properties

As at the Latest Practicable Date, we leased 254 properties in China and three properties in Hong Kong. These leased properties are used for our offices and retail shops. The total GFA of our retail shops in the PRC was about 34,800 sq.m.. The size of a retail shop in the PRC ranged from approximately 20 sq.m. to approximately 400 sq.m.. As at the Latest Practicable Date, our Group leased two properties from Independent Third Parties in Hong Kong. The lease agreements typically have a term of one to three years and are valid and legally binding.

Most of the premises were leased to us by Independent Third Parties. As at the Latest Practicable Date, premises having total GFA of about 1,302 sq.m. were leased to us by our Controlling Shareholders or their close associates. Such premises are used as our offices.

The following table sets out the maturity profile of the lease agreements relating to our retail shops in the PRC that remained outstanding as at the Latest Practicable Date:

Maturity profile	Number of lease agreements(Note 1)
Within 12 months	90
More than 12 months and within 24 months	60
More than 24 months	54

Note:

(1) As at the Latest Practicable Date, 10 of the lease agreements was in the process of negotiation and the expiry date is yet to be determined.

Of the 90 lease agreements that are expiring within 12 months, we are in the process of negotiating with the lessors. Our Directors confirm that there is no material impediment for the Company to renew the lease agreements that are expiring within 12 months.

As at the Latest Practicable Date, among the leased properties in the PRC, lessors of 120 leased properties, of which 100 were used as our retail shops (representing approximately 45.3% of the total GFA our Group leased as at the same date), had not provided sufficient evidence for their rights to lease the properties to us. For FY2014, FY2015, FY2016 and the four months ended 30 April 2017, revenue attributable to these retail shops amounted to approximately HK$71.0 million, HK$113.7 million, HK$133.5 million and HK$50.7 million, respectively, representing approximately 5.4%, 7.3%, 8.2% and 8.9%, respectively, of our revenue for the corresponding periods. If the lessors' ownership to the properties, or their contracts with the owners of the properties, are defective, we are exposed to a potential relocation risk if our rights to use those properties are successfully challenged.

In order to minimise the potential adverse impact on our operations, we plan to continue to maintain regular communication with the lessors regarding the progress of their remediation of the defects. We have established guidance and strengthened internal procedures to improve assessment for selecting locations of our retail shops. If we are required to cease occupying and using the relevant properties, we believe that we will be able to find suitable replacements with similar terms and conditions without material delay in nearby shopping malls where alternatives are generally available. In addition, we are entitled to compensation from a majority of the lessors for our losses and damages as a result of relocation pursuant to the terms of the relevant lease agreements or the undertaking of indemnity they have made.

In addition, as at the Latest Practicable Date, at least 42 of our leased properties were mortgaged (as recorded on the ownership certificates) when we entered into the lease agreements. Our right to use the mortgaged properties are subordinate to the rights of mortgages relating to the relevant properties. For details of the potential risk, please refer to the section headed "Risk Factors – Risks Related to Our Business – Some of our lessors have not provided property ownership certificates and we may be required to cease occupation and use of such leased properties" in this prospectus.

Registration of lease agreements

As at the Latest Practicable Date, 244 of the lease agreements with respect to our leased properties had not been registered with the relevant PRC government authorities. According to our PRC Legal Advisers, the relevant PRC governmental authorities may require us to complete such registrations within a stipulated time limit. If we fail to do so, we may be liable to a fine of up to RMB10,000 per incident. As advised by our PRC Legal Advisers, failure to complete such registration will not affect the validity or enforceability of the relevant lease agreements or result in us being required to vacate the leased properties. In case we are evicted from such premises, we believe that we could relocate our operations to new properties in the neighbourhood without material relocation costs nor any undue disruption.

Registration of the lease agreements requires cooperation of the lessors, including their provision of various original documents to the local governmental authorities. While we have limited control over these lessors in cooperating with us, we have taken a number of initiatives to complete the lease registration including establishing a dedicated team that proactively communicates with the lessors in order to obtain their cooperation and collect the required application documents for the lease registration. As at the Latest Practicable Date, we had completed lease registration for 10 lease agreements.

We were advised by our PRC Legal Advisers that, if the lease registration can be completed in accordance with relevant laws and regulations (i) before we receive any notice from the governmental authorities requiring us to apply for lease registration, or (ii) in the event that we receive such notice in the future requiring us to apply for registration, within the prescribed time limit ordered by the competent government authorities, the probability of the competent government authorities imposing a penalty on us is remote, on the basis that (i) no penalty had been imposed on us for our failure to register these lease contracts during the Track Record Period and up to the Latest Practicable Date, (ii) according to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the competent government authorities shall first order us to register these lease contracts within a prescribed time limit, and may only impose a fine up to RMB10,000 per incident if we fail to comply with such requirement. During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or order from the competent government authorities requiring us to rectify our failure to complete the lease registrations within a prescribed time limit, and (iii) our Directors believe that the lease registration can be completed with the cooperation of the lessors within a reasonable period of time after the relevant application documents are submitted.

Lease agreements of our retail shops

As at the Latest Practicable Date, we leased 214 properties with a total GFA of approximately 34,800 sq.m. to open retail shops. To the best of our knowledge and belief, all of the shopping malls where we operate retail shops are Independent Third Parties. Specific terms of the respective lease agreements may vary, but typically include the following:

- Term – The term of our lease agreements generally ranges from one year to five years.

- Rentals – Depending on the terms of lease agreements, we pay

    - variable monthly rent, which are calculated as certain percentages of the gross sale proceeds of the relevant retail shop;

  - fixed monthly rent as mutually agreed with the lessor or shopping mall owner; and/or

  - the higher of the variable monthly rent and the fixed monthly rent.

- Deposit – Under certain lease agreements, we are required to pay a deposit within a period of time after the lease agreement is signed, which is refundable upon termination or expiration of the agreements.

- Promotion management – We collaborate with shopping mall owners to participate in marketing activities, and we are required to pay a certain amount of marketing fee.

- Financial settlement – For most retail shops, we receive sales proceeds at our retail shops without having gone through the cashier system of the lessors or operators of the shopping malls. We pay the rentals, promotional costs and other applicable fees and expenses charged by shopping malls on a monthly basis. For other retail shops, shopping malls collect the proceeds of sales made by our retail outlets, and will pay to us the sales proceeds net of rentals, promotional cost and other applicable fees and expenses payable.

- Minimum sales target – Under a few lease agreements, we are required to meet the minimum sales target for each month during the term of the agreement. During the Track Record Period, we did not fail to meet the monthly sales targets imposed by shopping mall owners.

- Miscellaneous fees – We are generally required to pay maintenance fee, utilities and other related fees in relation to the operation of retail outlets.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, the aggregate rental expenses of our retail shops amounted to approximately HK$55.9 million, HK$78.1 million, HK$95.3 million and HK$36.6 million, respectively, representing approximately 4.2%, 5.0%, 5.8% and 6.5%, respectively, of our revenue for the corresponding periods.

Property Valuation

As at the Latest Practicable Date, we did not have any single property with a carrying amount exceeding 15% of our total assets, and accordingly, we are not required by section 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of COWUMPO in relation to paragraph 34(2) of the Third Schedule to COWUMPO, which requires a valuation report with respect to all of our interests in land or buildings.

INSURANCE COVERAGE

As at 30 April 2017, we maintained the following insurance in respect of our operation in the PRC.

- Third party insurance – We are required by lessor to maintain third party insurance policy in order to protect us against losses and damages of third parties at our retail shops and distribution centres.

- Supplementary medical and accident insurance – We provide our employees/senior management with extra medical and accident protection coverage to complement the national medical insurance plan.

- All risks insurance – We maintain all risks insurance for our retail shops and distribution centres in order to protect us against losses and damages as a result of theft, robbery and fire.

We maintain insurance policies in respect of our operations in Hong Kong. These policies include coverage in respect of losses or damages in respect of business furniture, fixtures, equipment and stock. We also maintain employees' compensation and public liability insurances.

We do not generally maintain product liability insurance for our products. We believe this is in line with the general industry practice and that our existing insurance coverage is sufficient for our existing operations. During the Track Record Period and up to the Latest Practicable Date, we did not have any material claims under our insurance policies and we did not receive any material claim from our customers relating to any liability arising from the use of our products.

LEGAL PROCEEDINGS

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or administrative proceedings of material importance and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of our Group.

As confirmed by our PRC Legal Advisers, we have (save as disclosed in the paragraph headed "Non-compliance incidents" below in this "Business" section) complied in all material respects with all applicable laws and regulations in the PRC during the Track Record Period.

As confirmed by our Directors, we have complied in all material respects with all applicable laws and regulations in Hong Kong during the Track Record Period.

NON-COMPLIANCE INCIDENTS

We set out below a summary of material non-compliance incidents during the Track Record Period and up to the Latest Practicable Date and the rectification measures taken by us in respect of theses non-compliance incidents.

Non-compliance in relation to social insurance fund and housing provident fund contributions

As advised by our PRC Legal Advisers, during the Track Record Period, we did not contribute to the social insurance fund and housing provident fund for the benefit of our employees for the full amount based on their actual salaries as required under the PRC law on social insurance (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Fund (《住房公積金管理條例》) and the relevant regulations.

We have made full provisions in respect of the outstanding amount of the social insurance fund and housing provident fund contributions. As at 31 December 2014, 2015 and 2016 and 30 April 2017, the carrying amount of our aggregate provisions in respect of the social insurance fund and housing provident fund contributions amounted to approximately HK$29.3 million, HK$38.9 million, HK$41.0 million and HK$42.6 million, respectively, while taking into account reversal of provisions made in prior years, the respective net provisions charged to our combined statement of profit and loss for each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2017 amounted to approximately HK$8.4 million, HK$11.7 million and HK$4.8 million and HK$1.2 million, respectively.

Reasons for non-compliance

We did not make the full contributions because the employees involved were unwilling to be enrolled or make full contribution to the social insurance fund or housing provident fund as required by the PRC laws and regulations, under which they would be required to make contributions and we would be required to make matching contributions. In addition, to a lesser extent, our local administrative staff had not familiarised themselves with the relevant requirements.

Rectification measures

As at the Latest Practicable Date, we had not received any notification from relevant PRC authorities alleging that we had not made full contribution to the social insurance fund and the housing provident fund and requesting payment of the same within a prescribed period. We were not aware of any employee's complaints or claims for payment of the social insurance fund or housing provident fund contributions, nor had we received any legal documentation from the labour arbitration tribunals or the PRC courts regarding disputes in this regard.

We have obtained written confirmations from competent local authorities of cities where certain of our key subsidiaries are located and operate business. These confirmations state, in respect of the relevant periods stated therein, no administrative penalties had been imposed and/or non-compliance has not be identified and/or the number of employees who participated in the social insurance and housing provident fund schemes.

We have commenced making full contribution to the social insurance fund and the housing provident fund for our employees based on their actual salaries since April 2017. Save for the 41 employees, the majority of whom will be outsourced to the HR Company by the first half of 2018 due to personal reasons, as at the Latest Practicable Date, we had made full contribution to the social insurance fund and the housing provident fund for our employees. As for the sales staff working at our retail points, the HR Company shall be responsible for making contribution to, and bear the costs of, the social insurance fund and housing provident fund for such sales staff. For further details, please refer to the paragraph headed "Human Resources – Outsourcing arrangement" in this section.

We have established an internal control policy that requires full compliance with the relevant laws and regulations on the social insurance fund and the housing provident fund and have started implementing such internal control policy in May 2017.

Opinions from our PRC Legal Advisers

As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, we may be requested by relevant PRC authorities to pay the outstanding social insurance contribution within a prescribed period and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to make the payment within such prescribed period, we may be ordered to pay a fine in the amount ranging from one to three times of the outstanding social insurance contribution.

As advised by our PRC Legal Advisers, according to the Administrative Regulations on Housing Provident Fund, we may be requested by the relevant PRC authorities to pay the outstanding housing provident fund contribution within a prescribed period. If we fail to make the payment within such prescribed period, we may be subject to an order from the relevant PRC court to make such payment.

We estimate that the potential maximum penalty in respect of the non-compliance with the relevant laws and regulations on social insurance fund and housing provident fund amounts to about HK$6.6 million. As advised by our PRC Legal Advisers, on the basis that: (i) as confirmed by our Group it had not received any notification from relevant PRC authorities alleging its failure to make full contribution to the social insurance fund and the housing provident fund and requesting payment of the same, (ii) as confirmed by our Group, there had been no employee's complaints or claims for payment of the social insurance fund or housing provident fund contributions and (iii) the written confirmations obtained from the relevant competent local authorities described above, the likelihood of our Group being imposed penalties by relevant PRC authorities for failing to make full contribution to the social insurance fund and housing provident fund is low. Therefore we did not make any provision for the potential maximum penalty at each year end of the Track Record Period.

Impact on our Group

Our Directors are of the opinion that this incident will not have any material impact on the operations or financial conditions of our Group for the following reasons: (i) the written confirmations obtained from the relevant competent local authorities described above; (ii) the advice from our PRC Legal Advisers that the chance of a fine being imposed is remote if outstanding social insurance fund and housing provident fund contributions are repaid on time when required by the relevant authorities; (iii) we have made provisions in connection with this non-compliance for relevant periods; and (iv) our Controlling Shareholder will indemnify us should any penalty be imposed on our Group.

Non-compliance in relation to the withholding enterprise income tax

Since the incorporation of Kidsland Holdings in 2010, Mr. Lee (the sole director of Kidsland Holdings), Dr. Lo (the sole director of Kidsland Distribution, which is a wholly-owned subsidiary of Kidsland Holdings) and Kidsland Holdings have been responsible for developing business relationship with one of our major brand owners (the "**Major Brand Owner**") in respect of, among other things, the renewal of distributorship agreements, its sales and marketing strategy and brand promotion strategy in the PRC. The Major Brand Owner subsequently established its registered office in the PRC and since November 2012, its PRC office entered into distributorship agreements with our PRC subsidiaries directly. After arm's length negotiation between Kidsland Holdings and the Major Brand Owner, Beijing Haisile and Shanghai Haisile entered into a distributorship agreement ("**2013 Distributorship Agreement**") with the Major Brand Owner in November 2012 (with effect from 1 January 2013). Upon expiry of the 2013 Distributorship Agreement, Beijing Haisile, Shanghai Haisile and Guangzhou Haisile (the "**PRC Subsidiaries**") entered into (among other parties) a new distribution agreement with the Major Brand Owner in February 2016 ("**2016 Distributorship Agreement**"). Subsequent to the signing of the respective 2013 Distributorship Agreement and 2016 Distributorship Agreement, Kidsland Holdings has been continuing to be responsible for brand distributorship development and maintenance services in respect of the formulation and execution of marketing plans and brand promotion plans for the products of the Major Brand Owner in the PRC. Kidsland Holdings will continue to provide such brand distributorship development and maintenance services (the "**Services**") to the PRC Subsidiaries during the term of the 2016 Distributorship Agreement and after Listing.

With a view to properly documenting and confirming the arrangement between Kidsland Holdings and the PRC Subsidiaries as mentioned above, each of the PRC Subsidiaries entered into Exclusive Brand Distributorship Development and Maintenance Service Agreement (品牌獨家代理開拓與維護協議) (the "**Brand Development Agreement**") with Kidsland Holdings in December 2016 and supplemental agreements thereto in April and May 2017, with retrospective effect from January 2013, pursuant to which each of the PRC Subsidiaries agreed to pay an annual distributorship development and maintenance service fee (the "**Service Fees**") equivalent to an agreed percentage of revenue generated from the actual sale of the products of the Major Brand Owner during the year for the Services rendered by Kidsland Holdings. The respective supplemental agreements entered thereto were for the purpose of confirming the amount of Service Fees in the respective years. The Brand Development Agreement will remain in effect until terminated by mutual agreement of both parties. Under the Brand Development Agreement, total Service Fees payable by the PRC Subsidiaries to Kidsland Holdings amounted to approximately HK$32.5 million (RMB 26.0 million), HK$37.3 million (RMB29.5 million), HK$60.4 million (RMB48.6 million) and HK$45.3 million (RMB 38.8 million) for each of the four years ended 31 December 2016. Before the signing of the Brand Development Agreement, such Service Fees were recognised as costs or expenses in the accounts of the PRC Subsidiaries and were considered as intra-group transactions which were fully eliminated in the combined statements of our Group for the four years ended 31 December 2016.

As advised by the PRC Legal Advisers, in accordance with the EIT Law and its implementation regulations, and Interim Measures on the Administration of Withholding at Source of Income Tax of Non-resident Enterprises《非居民企業所得税源泉扣繳管理暫行辦法》which became effective on 1 January 2009, the PRC Subsidiaries were required to withhold the enterprise income tax from the fees payable to Kidsland Holdings and pay such amount on behalf of Kidsland Holdings to the relevant PRC tax authorities when they recognised the Service Fees as costs or expenses since January 2013. The PRC Subsidiaries did not withhold nor pay the relevant taxes within the time limit for the three years ended 31 December 2015.

Reasons for non-compliance

The non-compliance was due to our lack of understanding of relevant PRC tax laws and regulations which caused our misinterpretation that the withholding tax obligation only arose when the relevant fees were remitted out of the PRC. As at the Latest Practicable Date, none of the Service Fees were remitted out of the PRC.

Rectification measures

After signing the Brand Development Agreement in December 2016, we made submission to the relevant local tax authorities in Beijing, Shanghai and Guangzhou in respect of the withholding enterprise income tax accordingly. We paid the withholding enterprise income tax in accordance with the notice of tax assessment issued by the respective tax authorities in Beijing, Shanghai and Guangzhou in April and May 2017 respectively. None of the respective tax authorities has imposed any fines or overdue interest on us.

As agreed by the respective tax authorities, total withholding enterprise income tax paid by the PRC Subsidiaries to the relevant tax authorities for each of the three years ended 31 December 2015 are set out below:

Financial Year	Withholding enterprise income tax *(RMB'000)*	Withholding enterprise income tax *(HK$'000)*	% as to the profit for the year (before tax)
2013	2,596	3,253	4.3%
2014	2,951	3,726	2.9%
2015	4,693	5,829	4.4%

We have engaged an independent tax consultant, ("**Independent Tax Consultant**"), to review the withholding tax returns given to the relevant local tax authorities and provide training to the managers and staff of accounting and finance departments of our Group in respect of applicable PRC tax laws and regulations. We have duly paid the outstanding withholding enterprise income tax for 2016 which amounted to approximately HK$4.3 million (RMB3.7 million) before 31 May 2017, which is the deadline of final settlement (匯算清繳) under relevant PRC tax laws and regulations. In connection with the reasonableness of the Service Fee charged, our Independent Tax Consultant has provided a tax analysis based on, among other things, applicable regulations and guidances on transfer pricing, as well as selected market comparables. Based on the tax analysis, (i) the charge rate of the service fees are within the inter-quartile range of the weighted average percentages of the selected market comparable under Comparable Uncontrolled Price (CUP) method; and (ii) the inter-company arrangement as set out in the Brand Development Agreement is made on an arm's length basis.

We have also engaged an independent internal control consultant ("**Internal Control Consultant**") to review our tax reporting procedure. As at the Latest Practicable Date, the Internal Control Consultant was of the view that relevant internal control measures were in place to assist our Group in complying with the relevant PRC laws and regulations in the future.

Opinions from our PRC Legal Advisers

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, (i) if we are considered by the relevant PRC tax authorities as having failed to make tax filings and/or submit related materials within the time limits stipulated by relevant laws and regulations, we may be requested to rectify the situation within a prescribed time period and be imposed a fine of up to RMB2,000 or, in serious circumstance, a fine ranging between RMB2,000 and RMB10,000; and (ii) if we are considered by the relevant PRC tax authorities as having failed to withhold and pay the taxes within the prescribed time limits stipulated by laws and regulations, we may be requested to pay the taxes within a prescribed time period and be imposed an overdue interest equal to 0.05% of the overdue amount for each day of delay, and in the event that we still fail to withhold and pay the tax within such prescribed time period, we may be imposed a fine ranging from 50% to five times of the outstanding tax amount.

Our PRC Legal Advisers are of the view that the possibility of Kidsland Holdings and the PRC Subsidiaries being subject to future penalty is remote based on the following facts and reasons: (i) the PRC Subsidiaries have rectified the non-compliance by, as confirmed by Independent Tax Consultant, registering the Brand Development Agreement and/or its supplemental agreements with, submitting complete and appropriate tax filings to, and withholding the applicable tax and paying to, the competent PRC tax authorities; (ii) the competent PRC tax authorities have reviewed and accepted our submission and made decision on the applicable tax rates and related procedures, and they did not raise an incident of late payment of tax, nor indicate any overdue interest or fines; (iii) the PRC Subsidiaries have not paid the Service Fees out of the PRC to Kidsland Holdings, which is in compliance with requirement of SAT and SAFE on PRC entities' payment of service fees to foreign entities; (iv) the PRC Subsidiaries have obtained confirmations from the competent PRC tax authorities, which generally confirmed the PRC Subsidiaries have not been subject to records of material non-compliance with tax laws and regulations or administrative penalties as imposed by tax authorities during the Track Record Period. In addition, our PRC Legal Advisers are of the view that Kidsland Holdings and the PRC Subsidiaries are in general in compliance with relevant PRC tax laws and regulations in respect of the withholding enterprise income tax fees accrued for the year ended 31 December 2016 given the PRC Subsidiaries duly withheld and paid the withholding enterprise income tax before 31 May 2017, which is the deadline of annual final settlement (匯算清繳) in accordance with relevant PRC tax laws and regulations.

Impact on our Group

Our Directors believe that the non-compliance incident set out above will not have a material adverse effect on our business, financial condition and results of operations. Going forward, our Directors will procure the PRC Subsidiaries to withhold and pay relevant withholding enterprise income tax on behalf of Kidsland Holdings in accordance with relevant PRC tax laws and regulations. Our Controlling Shareholders will enter into the Deed of Indemnity with and in favour of our Group to provide indemnities in respect of monetary fines, settlement payments and any associated costs and expenses which would be incurred or suffered by them in connection with the aforesaid non-compliance occurred on or before the Listing Date.

INTERNAL CONTROL

In the course of preparation for the Listing, we engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform an assessment on the internal controls associated with our historical non-compliance incidents and certain business processes of our Group, to identify deficiencies in our internal control system and to make corresponding recommendations on enhanced internal control measures to prevent future violations and ensure on-going compliance with applicable laws and regulations. The scope of the engagement mainly entailed: (i) conducting a review of our internal control at corporate level and business operation level; (ii) reporting internal control deficiencies; (iii) assessing whether policies and operation procedures documents are being appropriately maintained and properly executed; (iv) recommending improvements; (v) communicating with our Directors and senior management to report the findings and recommendations of the review; and (vi) conducting follow-up reviews and reporting on the findings.

During the reviews of our independent Internal Control Consultant, certain other matters were identified and we have adopted corresponding internal control measures to improve on these matters.

We had adopted substantially all of the recommendations made by our Internal Control Consultant and had improved our internal control system to comply with the Listing Rules and the applicable laws and regulations. Our Internal Control Consultant had performed a follow-up review and our Group did not have significant deficiencies in our internal control system upon the closing assessment.

Having considered the nature and reasons for the historical non-compliance incidents, the advice from our PRC Legal Advisers, the rectification actions taken, the internal control measures adopted by us, based on the result of follow-up assessment of the Internal Control Consultant, our Directors are of the view, and the Sole Sponsor concurs, that (i) our enhanced internal control measures are adequate and effective having regard to the obligations of our Company and our Directors under the Listing Rules and other relevant legal and regulatory requirements; and (ii) the historical non-compliance incidents disclosed above would not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability for Listing of our Company under Rule 8.04 of the Listing Rules on the following grounds:

(i) the historical non-compliance incidents disclosed above were due to failure of our relevant staff to fully appreciate the relevant legal requirements or inadvertent oversight of our relevant staff;

(ii) the occurrence of the historical non-compliance incidents disclosed above was not due to the dishonesty or fraudulence of our Directors nor did any of these incidents raise any concern on the integrity of our Directors;

(iii) none of the historical non-compliance incidents disclosed above has any material impact on the results of our business operations or financial position;

(iv) our Directors acted upon the advice and internal control measures recommended by our Internal Control Consultant and we adopted substantially all of the recommendations made by our Internal Control Consultant;

(v) our Internal Control Consultant has performed a follow-up review and confirmed that all matters previously identified had been rectified; and

(vi) since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, our Directors confirmed that we had not had any material breach of applicable laws and regulations.

CASH MANAGEMENT

Payment at our retail points may be settled by cash, credit cards, or Alipay or WeChat Pay. We generally require each of our retail points to deposit all cash receipts into our designated bank accounts on a daily basis and to conduct daily reconciliation of sales records in the IPOS system with actual cash receipts and other forms of payment. Staff also conduct regular checks as well as random checks on actual cash receipts against records of cash deposits and sales receipts, in order to ensure that all sales are accurately recorded in our IPOS system. Accounting department will cross-check the reconciliation of sales records and the actual cash receipts against the amount of cash deposited into our designated bank accounts every month. For payments paid by credit cards, we check the statements issued by the banks that issued the credit or debit cards against the sales records in our ERP system. During the Track Record Period and up to the Latest Practicable Date, we did not record any material cash loss or theft.

Sales generated at consignment counters are first paid to the department stores concerned, and are subsequently paid to us on monthly basis, after deducting the monthly consignment fees and relevant expenses. Consignment fees are typically calculated as certain percentages of the gross sale proceeds of the relative consignment counters. These amounts are deposited or remitted into our designated bank accounts by the department stores. The amounts receivable from, and the consignment expenses or variable rents payable to, the department stores are verified by reconciling our sales and inventory records with the sales records of the department stores on a daily basis and on a monthly basis. During the Track Record Period, we did not experience any material difficulty in collecting the amounts due from department stores.

AWARDS AND RECOGNITIONS

The table below sets forth some of our major awards and recognitions as at the Latest Practicable Date:

Awards/Recognitions	Issuing authority	Year of receipt
Award for Innovation in retailing (零售創新獎)	China Toy & Juvenile Products Association (中國玩具和嬰童用品協會)	2017
Award for co-operation for 10 years (十年合作大獎)	Shanghai Bailian Limited*(上海百聯集團股份有限公司)	2017
15th Windmill award for innovative design (第十五屆創新設計風車獎)	China Toy & Juvenile Products Association (中國玩具和嬰童用品協會)	2016
Award for achieving sales target (銷售目標達成獎)	Shenzhen Jingjibaina Commercial Management Limited*(深圳市京基百納商業管理有限公司)	2016
14th Star Creation Competition (第十四屆創星大賽)	China Toy & Juvenile Products Association (中國玩具和嬰童用品協會)	2015
Mothers' most reliable stroller for 2015 (2015年值得媽媽信賴的童車獎)	Parent Star of Brands (Parents 品牌之星)	2015
13th Gold award for Star Creation (第13屆創星大賽金獎)	China Toy & Juvenile Products Association (中國玩具和嬰童用品協會)	2014
Award for excellent retail shop (優秀店舖獎)	Shanghai Joy City(上海大悦城)	2014

LICENCES, REGULATORY APPROVALS AND COMPLIANCE

As advised by our PRC Legal Advisers, the major licences and permits which required in our operations in the PRC are Business Licence, Certificate for Filing and Registration as Entry-Exit Commodities Inspection Applicant (《自理報檢單位備案登記證明書》), Filing and Registration Form of Foreign Trade Operator (《對外貿易經營備案登記表》) and Registration Certificate of Customs Declaration Entity (《報關單位註冊登記證書》). Our PRC Legal Advisers have confirmed that our Group has obtained all licences, permits and approvals in respect of our operations in the PRC and these licences, permits and approvals remained valid as at the Latest Practicable Date.

Our Directors confirm that our Group has obtained all licences, permits and approvals which are necessary for our operations in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our business is generally subject to relevant PRC national and local environmental laws and regulations. However, our operations do not produce or discharge any industrial wastes which are hazardous to the environment. As confirmed by the PRC Legal Advisers, we are not required to obtain any approvals or certificates that are applicable to the environment laws and regulations in the PRC.

We have formulated and implemented various workplace safety polices and procedures to ensure that our employees have a safe working environment. During the Track Record Period, none of our employees were involved in any major accidents in their workplaces.

OVERVIEW

Immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme), our Company will be owned as to approximately 56.151% by Asian Glory which is wholly-owned by Mr. Lee. As Asian Glory and Mr. Lee are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company immediately upon completion of the Capitalisation Issue and the Global Offering, each of them will be regarded as a Controlling Shareholder under the Listing Rules.

Asian Glory is an investment holding company and is wholly-owned by Mr. Lee, our Chairman and an executive Director. Further details of his background are set out in the section headed "Directors and senior management – Board of Directors – Executive Directors" of this prospectus.

Apart from our Group's business, our Controlling Shareholders and their close associates currently own certain other businesses which comprise of (i) non-toys retail or wholesale related such as operation of Japanese restaurants; and (ii) toys manufacturing related (the "**Toys Manufacturing Business**"). The Toys Manufacturing Business is conducted through the following companies:

(1) 東莞恒寶五金塑膠製品有限公司 (Dongguan Hengbao Metals and Plastic Products Company Limited*) ("**Dongguan Hengbao**") – Dongguan Hengbao was indirectly wholly-owned by Mr. Lee;

(2) 東莞利法寶玩具製品有限公司 (Dongguan Lovable Products (China) Limited*) ("**Dongguan Lovable**") – Dongguan Lovable was indirectly held as to 96% by Mr. Lee and indirectly held as to 4% by Dr. Lo;

(3) 太倉德寶玩具製品有限公司 (Taicang Debao Toys Manufacturing Company Limited*) ("**Taicang Debao**" and together with Dongguan Hengbao and Dongguan Lovable, the "**Toy Manufacturers**") – Taicang Debao was directly owned as to 40% by Mr. Lee, with the remaining 60% owned in equal shares by two Independent Third Parties;

(4) DB International (HK) Ltd. ("**DB International**") – DB International was directly owned as to 40% by Mr. Lee, with the remaining 60% owned in equal shares by the same two Independent Third Parties who were shareholders of Taicang Debao; and

(5) Lovable Products Trading Limited ("**Lovable Trading**" and together with DB International, the "**Export Companies**") – Lovable Trading was indirectly held as to 96% by Mr. Lee and indirectly held as to 4% by Dr. Lo.

* *English names are for identification purpose only.*

Dongguan Hengbao was established on 12 October 1992 under the laws of the PRC and primarily manufactures plastic toys of brands owned by third parties. The two largest brands of toys manufactured by Dongguan Hengbao for the year ended 31 December 2016 were a American toy brand and a French toy brand. As at 30 June 2017, it had a unaudited net asset value of approximately RMB16 million. For the year ended 31 December 2016, Dongguan Hengbao's annual output was over 3 million pieces.

Taicang Debao was established on 21 September 2007 under the laws of the PRC and primarily manufactures plastic toys of brands owned by third parties. The sole brand of toys manufactured by Taicang Debao during the year ended 31 December 2016 was a German toy brand. As at 30 June 2017, Taicang Debao had an unaudited net asset value of approximately RMB11 million. For the year ended 31 December 2016, its annual output was over 6 million pieces.

Dongguan Lovable was established on 13 September 2004 under the laws of the PRC and primarily manufactures plastic toys of brands owned by third parties. The only two brands of toys manufactured by Dongguan Lovable in the year ended 31 December 2016 were both German toy brands. As at 30 June 2017, Dongguan Lovable had an unaudited net asset value of approximately RMB10 million. For the year ended 31 December 2016, it had an annual output of approximately 30 million pieces.

DB International and Lovable Trading were established under the laws of Hong Kong on 19 December 2007 and 16 September 2010, respectively. As at 30 June 2017, DB International and Lovable Trading had unaudited net asset value of approximately HK$40 million and HK$201 million, respectively. The Export Companies engage mainly in the export of toys manufactured by the Toy Manufacturers for onward sale to the relevant brand owners of the toys.

Two brand owner customers of the Toys Manufacturing Business are suppliers of our Group. In respect of such two brand owner customers, the Toys Manufacturers manufacture (i) mainly ready-for-sale finished toy products for one of such brand owner customers, and our purchases of finished toy products from such brand owner amounted to approximately 2.7%, 2.1%, 0.8% and nil during the Track Record Period; and (ii) mainly semi-finished toy products and components for the other brand owner customer, and our purchases of finished toy products from such brand owner amounted to approximately 0.3%, 0.4%, 0.3% and 0.5% during the Track Record Period. Our purchases from these two brand owners include in part products manufactured by the Toys Manufacturers. Based on the above, our Directors consider the aggregate amount of purchase from the two brand owners as not material to our Group. Such purchases by our Group were entered into on arm's length basis and to the best of our Company's knowledge, had no direct correlation with the terms (including production volume) of the Toy Manufacturers. In order to focus on the business of our Group, being retail and wholesale of toys and infant products, the Toys Manufacturing Business will not form part of our Group after the Listing. Such exclusion is due to differences in nature of business and customer focus. The Toys Manufacturing Business is focused on the upstream manufacturing and subsequent export of the related toys for onward sale to the relevant brand owners; while our business is focused on the downstream retail and wholesale of toys supplied by brand owners. Our Directors are of the view that, due to such differences in business nature and customer focus, the Toys Manufacturing Business is not in competition, directly or indirectly, with those of our Group.

Our Controlling Shareholders have confirmed that they do not have any interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has, unconditionally and irrevocably, undertaken to us in the Deed of Non-Competition that he/it will not, and will procure his/its close associates (other than members of our Group) not to directly or indirectly participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business (other than our business) that directly or indirectly competes, or may compete, with our business or undertaking (the "**Restricted Activity**"), or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by our Group from time to time except where our Controlling Shareholders and/or his/its close associates hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not control 10% or more of the board of directors of such company.

Further, each of our Controlling Shareholders has undertaken to procure that if any new business investment or other business opportunity relating to the Restricted Activity (the "**Competing Business Opportunity**") is identified by or made available to him/it or any of his/its close associates, he/it shall, and shall procure that his or its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and in the following manner:

- refer the Competing Business Opportunity to our Company by giving written notice (the "**Offer Notice**") to our Company of such Competing Business Opportunity within 30 business days (or such later time as the independent non-executive Directors may agree) of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity;

- upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only independent non-executive Directors) which has no interest in the Competing Business Opportunity (the "**Independent Board**") as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless; their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity);

- the Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group's strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisors and legal advisors to assist in the decision-making process in relation to such Competing Business Opportunity at the costs of our Company;

- the Independent Board shall, within 30 business days (or such later time as the independent non-executive Directors may agree) of receipt of the written notice referred above, inform our Controlling Shareholders in writing on behalf of our Company its decision whether to pursue or decline the Competing Business Opportunity;

- our Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if he/it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 days' period (or such later time as the independent non-executive Directors may agree) mentioned above; and

- if there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholders, he/it shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

The Deed of Non-competition will lapse automatically if our Controlling Shareholders and their close associates cease to hold, whether directly or indirectly, 30% of our Shares or our Shares cease to be listed on the Stock Exchange.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-competition includes the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;

- each of our Controlling Shareholders has undertaken to us that he/it will, and shall procure his/its close associates to, provide all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-competition;

- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;

- we will disclose the decisions on matters reviewed by the independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) either through our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;

- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the principle of voluntary disclosure in the corporate governance report; and

- in the event that any of our Directors and/or their respective close associates has material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of Deed of Non-competition, he may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

We are committed that our Board shall include a balanced composition of executive and non-executive Directors (including the independent non-executive Directors). Given that the independent non-executive Directors represents one-third of the Board, we believe that there is strong independent element on our Board, which allow them to exercise independent judgement and to protect the interests of our public Shareholders. For further details of our independent non-executive Directors, please refer to the section headed "Directors and Senior Management – Board of Directors – Independent Non-executive Directors" in this prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. Apart from Mr. Lee, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. In the event that there is a 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 shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team independent from our Controlling Shareholders to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Listing.

Operational Independence

Although we entered into certain connected transactions with certain associates of our Controlling Shareholders which will continue after Listing, such transactions have been entered into and will continue to be entered into on normal commercial terms and in the ordinary course of business of our Company. Please refer to the section headed "Connected Transactions" in this prospectus for the details of the connected transactions that will continue after Listing. Save as disclosed in this prospectus, there will be no other connected transactions with certain associates of our Controlling Shareholders which will continue upon Listing.

Having considered the above and that (a) we do not share operational capabilities with our Controlling Shareholders; (b) we have independent access to suppliers and customers; (c) we have an independent management team to handle our day-to-day operations; and (d) we are also in possession of all relevant licences necessary to carry on and operate our business, our Directors are of the view that we can operate independently from our Controlling Shareholders.

Financial Independence

All loans, advances and balances due from our Controlling Shareholders and their respective close associates will be fully settled and all loans, advances and balances due to our Controlling Shareholders will be fully waived before Listing. All share pledges and guarantees provided by/to our Controlling Shareholders and their respective close associates on our Group's borrowing will also be fully released upon Listing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

CORPORATE GOVERNANCE MEASURES

Our Controlling Shareholders and their respective close associates may not compete with us as provided in the Deed of Non-Competition. Each of our Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act as our Shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

(a) as part of our preparation for the Global Offering, we have amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

(c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and Senior Management – Board of Directors – Independent Non-executive Directors" in this prospectus; and

(d) we have appointed Haitong International Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, our Directors, substantial Shareholders and chief executive officer or those of our subsidiaries, any person who was our Director or a director of our subsidiaries within 12 months preceding the Listing Date and any of the above persons' associates will become a connected person of our Company upon the Listing. Upon the Listing, our transactions with such connected persons will constitute connected transactions of our Company under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transactions which will continue after the Listing will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

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

1A. Leasing of the PRC Premises by Shanghai Haisile

On 15 May 2017, Shanghai Haisile entered into a lease agreement (the "**PRC Lease Agreement**") with Land Smart Development Limited ("**Land Smart**"), pursuant to which Land Smart agreed to lease the premises situated at 21st Floor, No. 2067 Yanan West Road, Changning District, Shanghai, the PRC (中國上海市長寧區延安西路2067號21層) with a GFA of approximately 1,160 sq.m. (the "**PRC Premises**") to Shanghai Haisile for office use for a term commencing from 1 January 2016 and ending on 31 December 2018 (both days inclusive). The total rent for the 12-month term ended 31 December 2016 is approximately RMB1 million; whereas the total rent for each of the 12-month term ending 31 December 2017 and 2018 is RMB1,524,936 (exclusive of utilities and management fees).

The rental expenses paid by our Group for the PRC Premises for the three years ended 31 December 2016 were approximately RMB1.2 million, RMB1.2 million and RMB1 million, respectively. The rental amounts payable under the PRC Lease Agreement were determined with reference to (i) the GFA of the PRC Premises; (ii) the prevailing market rent at the time of the entering into the PRC Lease Agreement for similar premises in Shanghai; and (iii) the expected market rental increment in 2017 and 2018.

Land Smart is wholly-owned by Asian Glory, one of our Controlling Shareholders and is therefore a connected person of our Company.

1B. Leasing of the HK Premises by Kidsland Holdings

On 1 May 2017, Kidsland Holdings entered into a lease agreement (the "**HK Lease Agreement**") with Politor Limited, pursuant to which Politor Limited agreed to lease the premises situated at certain portion of 28/F, Times Tower, Nos. 391 – 407 Jaffe Road, Hong Kong with a GFA of approximately 142 sq.m. (the "**HK Premises**") to Kidsland Holdings for office use for a term commencing from 1 July 2017 and ending on 30 June 2019 (both days inclusive) at a monthly rent of HK$55,000 (inclusive of the government rates, rent and management fees). As a result, the total rent for each 12-month term is HK$660,000. Kidsland Holdings has an option to renew the tenancy for another three years upon giving not less than three months' written notice before the expiration of the term.

There were no historical transaction amounts for the three years ended 31 December 2016 as Kidsland Holdings will only commence to lease the HK Premises on 1 July 2017. The rental expenses for the HK Premises for the three years ending 31 December 2019 will be HK$330,000, HK$660,000 and HK$330,000, respectively. The rental amount payable under the HK Lease Agreement was determined with reference to (i) the GFA of the HK Premises; (ii) the prevailing market rent at the time of the entering into the HK Lease Agreement for similar premises in Wanchai, Hong Kong; and (iii) the expected market rental increment in 2017, 2018 and 2019.

Politor Limited is wholly-owned by Asian Glory and Mr. Lee, our Controlling Shareholders and is therefore a connected person of our Company.

Aggregation

Since the ultimate beneficial owner of each of Asian Glory and Politor Limited is Mr. Lee and that the transactions contemplated under the PRC Lease Agreement and the HK Lease Agreement (the "**Lease Agreements**") are similar in nature, the transactions contemplated under the Lease Agreements should be aggregated pursuant to the Listing Rules. Since each of the applicable percentage ratios (other than the profits ratio) for the Lease Agreements in aggregate is expected to be more than 0.1% but less than 5.0% and the annual consideration is expected to be less than HK$3 million, the transactions contemplated under the Lease Agreements are fully exempt from the reporting, annual review, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

2. Master Marketing Services Agreement with Captcha Media

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

There were no historical transaction amounts for the two years ended 31 December 2014 and 2015 as Kidsland LCS only started to procure marketing services from Captcha Media from February 2016. The marketing services fees paid by our Group to Captcha Media for similar services amounted to approximately HK$0.9 million for the year ended 31 December 2016 and approximately HK$0.4 million for the four months ended 30 April 2017.

The annual service fee payable by Kidsland LCS pursuant to the Master Marketing Services Agreement is expected to be no more than HK$3.5 million, HK$5 million and HK$5.3 million for each of the three years ending 31 December 2019, respectively, which was determined with reference to (i) the marketing service fees paid by us to Captcha Media for the year ended 31 December 2016 and the four months ended 30 April 2017; (ii) the costs in connection with the ongoing advertising, offline promotional campaigns for our existing LEGO Certified Store in Hong Kong; (iii) the expected one-off additional marketing expenses in connection with the expected opening of additional LEGO Certified Stores in Hong Kong in 2017 and 2018; and (iv) the expected costs in connection with the ongoing advertising, offline promotional campaigns for such LEGO Certified Stores expected to be opened in Hong Kong.

Captcha Media is owned as to 84% by Strategenes Limited, which is in turn wholly-owned by Dr. Lo, one of our executive Directors, and his spouse. As such, Captcha Media is a connected person of our Company. The remaining 16% of Captcha Media is owned by two Independent Third Parties.

Since each of the applicable percentage ratios (other than the profits ratio) for the Master Marketing Services Agreement is expected to be more than 0.1% but less than 5.0%, the transactions contemplated under the Master Marketing Services Agreement would be subject to the reporting, annual review and announcement requirements, but exempt from circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Silverlit Exclusive Distribution Agreement with Dongguan Silverlit

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

(a) grant Silverkids Group a non-transferrable and exclusive right to market, sell and distribute toys (the "**Distribution Toys**") which are manufactured, or sourced from third parties, by Dongguan Silverlit or its associated companies in the PRC (the "**Distribution**"); and

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

For the three years ended 31 December 2016, the purchases by our Group from Dongguan Silverlit (and its associated companies) amounted to approximately RMB71.7 million, RMB54.4 million and RMB65.0 million, respectively. In 2014, our Group purchased a large number of Distribution Toys to reserve inventory and to distribute to our then existing retail stores; whereas our purchase in 2015 was based on the actual demand of the Distribution Toys. In 2016, we increased our purchase again primarily attributable to the increase in the demand of certain Distribution Toys procured by Dongguan Silverlit. The price for the Distribution Toys to be supplied pursuant to the Silverlit Exclusive Distribution Agreement will be determined with reference to ex-factory prices (inclusive of VAT of 17%).

For the three years ended 31 December 2016, no fees were paid by us to Dongguan Silverlit for the use of the Licenced Trademarks.

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

Our Directors estimate that the aggregate value of the purchases of the Distribution Toys under the Silverlit Exclusive Distribution Agreement will not exceed RMB76 million, RMB96 million and RMB115 million for the three years ending 31 December 2019, respectively. Such estimate is based on (i) the historical transaction amounts for the three years ended 31 December 2016; (ii) the purchase amount for the five months ended 31 May 2017 of approximately RMB41.7 million, which represents more than 50% of the value of the annual cap for the year ending 31 December 2017 as a result of the launch of new products in first half of 2017; (iii) the sales targets under the Silverlit Exclusive Distribution Agreement; and (iv) the expected growth in the demand for the Distribution Toys, taking into account the increasing demand of those new products and the proposed launch of toys under new brands to be procured by Dongguan Silverlit in 2018 and 2019.

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

Dongguan Silverlit is indirectly owned as to 31% by Mr. Choi Kei Fung, a director of Silverkids, a non-wholly owned subsidiary of our Company, and 69% by his associates. As such, Dongguan Silverlit is a connected person at the subsidiary level of our Company under the Listing Rules. Under Rule 14A.101 of the Listing Rules, given the Directors including the independent non-executive Directors have approved the transactions contemplated under the Silverlit Exclusive Distribution Agreement and in light of their view set in the paragraph headed “Directors’ View” below, the transactions contemplated under the Silverlit Exclusive Distribution Agreement are subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and independent shareholders’ approval requirements under the Listing Rules. However, Mr. Choi Kei Fung is not a Director, therefore by definition of Hong Kong Accounting Standard 24 (“**HKAS 24**”), Silverkids Tianjin and Dongguan Silverlit do not fall under the definition of “related parties” of HKAS 24, hence transactions between Silverkids Tianjin and Dongguan Silverlit during the Track Record Period did not constitute related parties transactions and therefore are not disclosed in the Accountants’ Report in Appendix I to this prospectus.

WAIVERS

The transactions pursuant to the Lease Agreements constitute exempt continuing connected transactions under the Listing Rules.

The transactions contemplated under the Master Marketing Services Agreement and the Silverlit Exclusive Distribution Agreement constitute non-exempt continuing connected transactions under the Listing Rules. In respect of the Marketing Services pursuant to the Master Marketing Services Agreement, the percentage ratios calculated with reference to the proposed annual caps for each of the years shown above are more than 0.1% but less than 5% on an annual basis. As such, the Marketing Services would be subject to reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and independent shareholders' approval requirements under the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, the transactions pursuant to the Silverlit Exclusive Distribution Agreement would be subject to reporting, annual review and announcement requirements but exempt from circular, independent financial advice and independent shareholders' approval requirements under the Listing Rules.

We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the reporting, annual review and announcement requirements under the Listing Rules in respect of the continuing connected transactions pursuant to the Master Marketing Services Agreement and the Silverlit Exclusive Distribution Agreement subject to the aggregate values of such non-exempt continuing connected transactions for each relevant year not exceeding the relevant annual cap amount set forth above. Should there be any material changes to the terms under any of the agreements referred to in this section, or should there be any other agreements to be entered into between our Group and the connected persons of our Company, we will comply with the applicable requirements under the Listing Rules and may apply for relevant waivers (where applicable).

DIRECTORS' VIEW

Our Directors, including our independent non-executive Directors, consider that all the continuing connected transactions above are conducted on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole and are in the ordinary and usual course of our business. Our Directors, including our independent non-executive Directors, are also of the view that the proposed annual caps of the continuing connected transactions above are fair and reasonable and in the interests of our Shareholders as a whole.

SOLE SPONSOR'S VIEW

The Sole Sponsor is of the view that the non-exempt continuing connected transactions pursuant to the Master Marketing Services Agreement and the Silverlit Exclusive Distribution Agreement and their respective annual caps are fair and reasonable, and that such transactions have been entered into in the ordinary and usual course of our Group's businesses, on normal commercial terms or better and are fair and reasonable and in the interests of our Shareholders as a whole.

BOARD OF DIRECTORS

Our Board consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and for the increase of our issued share capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have entered into a service contract with each of our executive Directors. We have also entered into a letter of appointment with each of our non-executive Directors and our independent non-executive Directors.

The table below shows certain information with respect to our Directors and senior management:

Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position in our Company	Roles and responsibilities
Mr. Lee Ching Yiu (李澄曜)	61	April 2001	26 April 2017	Chairman; Chief Executive Officer; and Executive Director	Overall management, strategic planning and operations of our Group
Dr. Lo Wing Yan William (盧永仁)	56	January 2010	26 April 2017	Executive Director; Vice-Chairman, Chief Financial Officer; and Managing Director in Hong Kong	Strategic development and corporate financial management of our Group as well as overseeing the operations in Hong Kong
Ms. Zhong Mei (仲梅)	46	July 2001	26 April 2017	Executive Director; and Managing Director China	Overseeing the operations of our Group in the PRC
Mr. Du Ping (杜平)	46	May 2017	24 May 2017	Non-executive Director	Provision of advice and judgement to our Board
Ms. Duan Lanchun (段蘭春)	42	August 2017	31 August 2017	Non-executive Director	Provision of advice and judgement to our Board
Mr. Cheng Yuk Wo (鄭毓和)	56	October 2017	20 October 2017	Independent Non-executive Director	Provision of independent advice and judgement to our Board
Dr. Lam Lee G. (林家禮)	58	October 2017	20 October 2017	Independent Non-executive Director	Provision of independent advice and judgement to our Board
Mr. Huang Lester Garson (黃嘉純)	57	October 2017	20 October 2017	Independent Non-executive Director	Provision of independent advice and judgement to our Board

Members of our senior management

Name	Age	Date of joining our Group	Date of appointment as senior management	Existing position in our Company	Roles and responsibilities
Ms. Zhang Ying (張瑩)	52	July 2001	January 2003	Regional director	Overseeing our stand-alone stores and our sales and operations in Northern China
Mr. Yang Kewei (楊可為)	49	July 2001	January 2003	Regional director	Overseeing our wholesale distribution and our sales and operations in Central China
Ms. Zhang Weili (張偉麗)	53	July 2001	January 2003	Regional director	Overseeing our consignment counters and our sales and daily operations in Southern China
Ms. Chang Rong (常蓉)	48	May 2004	January 2006	Director for finance, human resources and information technology	Overseeing finance management, human resources and information technology in the PRC
Mr. Liang Dasheng (梁大生)	46	May 2013	January 2015	Sales and operations director	Overseeing the sales management of our key accounts and infant products and the management of our supply chains
Ms. Cao Yuelin (曹玥琳)	43	July 2001	January 2008	Marketing manager	Overseeing brand management and marketing strategies
Mr. Ng Kwok Shek Marco (吳國碩)	41	June 2016	1 June 2016	General manager, Hong Kong Retail	Overseeing retail operations in Hong Kong
Ms. Wong Yuk Ki (王毓琦)	38	February 2013	26 April 2017	Company secretary	Corporate finance, investor relations and company secretarial matters

Executive Directors

Mr. Lee Ching Yiu (李澄曜), aged 61, was appointed as our Director on 26 April 2017 and re-designated as our executive Director on 24 May 2017. He is also our Chairman and Chief Executive Officer and is primarily responsible for the overall management, strategic planning and operations of our Group. Mr. Lee is a director of Silverkids, Prince Asia, Kidsland Holdings, Kidsland China, Beijing Haisile, Kidsland HK and Kidsland LCS and the general manager of Kidsland China.

Mr. Lee held certain entities which were engaged in the manufacturing of toys for the brand owners and has gained 25 years of experience in the toy industry. Mr. Lee received his Bachelor of Arts from the University of Hong Kong in November 1979.

Mr. Lee was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were deregistered pursuant to section 291AA of the then predecessor Companies Ordinance. The details of such companies are as follows:

Name of company	Date of submission of application for deregistration	Date of deregistration
Cheer Dragon International Development Limited (展龍國際發展有限公司)	25 July 2006	8 December 2006
China Modern Agriculture Investment Co., Limited (百駿現代農業投資控股有限公司)	15 November 2007	25 July 2008
Happy Crafts Industrial Limited (恒寶塑膠製品有限公司)	29 December 2004	13 May 2005
Oscar Limited (奧古有限公司)	15 September 2007	1 February 2008

Note: Each of the above companies has either never commenced business or ceased to carry on business for more than three months immediately before the respective applications for deregistration.

Mr. Lee was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were dissolved by striking off by the Registrar of Companies in Hong Kong pursuant to section 291 of the then predecessor Companies Ordinance. The details of such companies are as follows:

Name of company	Date of struck off
Daily Planets (Hong Kong) Limited	7 February 2003
Sitor Limited (勝通有限公司)	8 November 2002

Mr. Lee confirmed that, as at the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of each of the above companies.

Dr. Lo Wing Yan William (盧永仁), aged 56, was appointed as our Director on 26 April 2017 and re-designated as our executive Director on 24 May 2017. He is also our Vice-Chairman, Chief Financial Officer and Managing Director in Hong Kong and is primarily responsible for the strategic development and corporate financial management of our Group as well as overseeing the operations in Hong Kong.

Prior to the appointment as our Director in April 2017, Dr. Lo was serving our Group as a corporate advisor from January 2010 to March 2017, providing strategic and corporate finance advice to our Group. From September 2011 to August 2014, Dr. Lo served as the vice chairman of South China Media Group, a company primarily engaged in the provision of media publication services and a subsidiary of the South China Group, which is listed on the Stock Exchange where he was responsible for corporate and organisation development, PRC and Asian market expansion and possible IPO opportunities. From May 2006 to June 2009, Dr. Lo served as the vice chairman, the managing director and the chief financial officer of I.T Limited, a fashion retailer which is listed on the Stock Exchange where he was responsible for overseeing its overall corporate strategy and especially on PRC market expansion. From July 2002 to March 2006, Dr. Lo served as the executive director and vice president of China Unicom (Hong Kong) Limited, a telecommunications service provider which is listed on the Stock Exchange and the New York Stock Exchange where he was responsible for international strategy, investor relations, listing compliance and corporate finance. From 1998 to 1999, Dr Lo served as the chief executive officer of Hong Kong, Macau and China at Citibank, N.A., which is a member of the Citibank Group listed on the New York Stock Exchange. From 1990 to 1998, Dr. Lo served as the managing director at HK Telecommunications (HKT) Limited, a telecommunications services provider and a subsidiary of PCCW Limited which is listed on the Stock Exchange. From 1988 to 1990, Dr. Lo served as the management consultant at McKinsey & Company, Inc., a consultancy firm where he was primarily responsible for strategy formulation, organisation development and mergers and acquisitions strategy in Asia, excluding Japan.

In July 1999, Dr. Lo was appointed by the Hong Kong Special Administrative Region Government as a Justice of the Peace. From 2003 to 2017, Dr. Lo was a committee member of Shantou Municipal Committee of the Chinese People's Political Consultative Conference. Dr. Lo is also the founding governor of the Charles K. Kao Foundation for Alzheimer's Disease and the ISF Academy as well as the present chairman of Junior Achievement HK.

Dr. Lo was, or has been, an independent non-executive director of the following listed companies in the three years preceding the Latest Practicable Date:

Period of Service	**Name of company**
September 2013 to September 2015	International Housewares Retail Company Limited, listed on the Stock Exchange
June 2009 to November 2015	Astaka Holdings Limited (formerly known as E2-Capital Holding Limited), listed on the Singapore Stock Exchange
July 2004 to June 2016	BOE Varitronix Limited, listed on the Stock Exchange
July 2003 to present	Nam Tai Property Inc, listed on the New York Stock Exchange
September 2010 to present	SITC International Holdings Company Limited, listed on the Stock Exchange
October 2013 to present	Jingrui Holdings Limited, listed on the Stock Exchange
April 2014 to present	CSI Properties Limited, listed on the Stock Exchange
February 2015 to present	Television Broadcasts Limited, listed on the Stock Exchange
January 2016 to present	Ronshine China Holdings Limited, listed on the Stock Exchange

Notwithstanding Dr. Lo's engagement as an independent non-executive director of 6 companies listed on the Stock Exchange or any securities market overseas:

(i) his roles in those listed companies are non-executive in nature which do not require his full time involvement and he does not participate in the day-to-day operations of those listed companies;

(ii) as advised and confirmed by Dr. Lo, he has not found difficulties in devoting to and managing his time for numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties to our Company;

(iii) as advised and confirmed by Dr. Lo, none of the listed companies that he has directorship with has questioned or complained about his time devoted to such listed companies;

(iv) according to Dr. Lo's confirmation and where available, information published by the listed companies which Dr. Lo is a director of, in respect of the most recent two complete financial years in which Dr. Lo had been a director of such companies, he had a high attendance rate for board meetings held; and

(v) in discharging his responsibilities within our Group, Dr. Lo is assisted by dedicated teams of staff in the relevant areas and is sufficiently supported.

Based on the foregoing, Dr. Lo has advised and confirmed that he has sufficient time to act as our executive Director. Based on the same, our Directors do not have reasons to believe that the various positions currently held by Dr. Lo will result in Dr. Lo not having sufficient time to act as our executive Director or not properly discharging his fiduciary duties as a director of our Company, and the Sole Sponsor concurs with such views of our Directors.

Dr. Lo received his Master of Philosophy from the University of Cambridge in the United Kingdom in March 1986 and his Doctor of Philosophy from the University of Cambridge in the United Kingdom in March 1988.

Dr. Lo had served as an independent non-executive director at Ocean Grand Chemicals Holdings Limited (now known as Hong Kong Resources Holdings Company Limited) ("**OG Chemicals**") from 20 May 2003 to 18 July 2006, a company incorporated in Bermuda which was listed on the Stock Exchange. It was previously engaged in the processing, production and trading of chemical compounds in the PRC and Hong Kong. On 24 July 2006, two provisional liquidators of OG Chemicals were appointed pursuant to the order of The High Court of Hong Kong Special Administrative Region Court of First Instance dated 24 July 2006. Subsequently, the court orders for the withdrawal of the petition to winding-up and the discharge of the provisional liquidators were granted on 30 September 2008.

Dr. Lo was a director of Provisional Hong Kong Science Park Company Limited, a now dissolved company incorporated in Hong Kong. Provisional Hong Kong Science Park Company Limited (臨時香港科學園有限公司) had not commenced any business since incorporation and was dissolved by striking off by the Registrar of Companies in Hong Kong pursuant to section 291A of the then predecessor Companies Ordinance on 7 May 2001. Dr. Lo was a director of izzue.com Limited (previously known as Lucky Trio Group Limited), a now dissolved company incorporated in the British Virgin Islands. izzue.com Limited had not commenced any business since incorporation and was dissolved by striking off in the British Virgin Islands on 30 April 2003. Dr. Lo has confirmed that, such companies were solvent at the time of being struck off and as at the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of such companies.

Ms. Zhong Mei (仲梅), aged 46, was appointed as our Director on 26 April 2017 and re-designated as our executive Director on 24 May 2017. She is also the Managing Director China and is primarily responsible for overseeing the operations of our Group in the PRC. Ms. Zhong is a director of Silverkids, Silverkids Tianjin, Shanghai Haisile, Chengdu Haisile, Shenzhen Haisile and Guangzhou Haisile and is the general manager of Beijing Haisile, Chengdu Haisile, Shenzhen Haisile, Guangzhou Haisile and Beijing Kaiqile.

Prior to joining our Group in July 2001, Ms. Zhong served as the sales and marketing director of Beijing Hong Kong Garland Trading Company Ltd (北京京港嘉寧商業有限責任公司), a branded toys distributor from March 1999 to June 2001 where she was primarily responsible for overseas business management, including sales, marketing operations, organisational development and sales and marketing team development. From November 1993 to February 1999, Ms. Zhong served as the national business manager of the toys division of East Asiatic Company (China) Ltd., a wholly-owned subsidiary of Santo Fe Group A/S which is listed on NASDAQ Copenhagen A/S and is primarily engaged in the distribution of international consumer products, where she was primarily responsible for overseas business management of its toys division, including sales, marketing operations and organisational development. Ms. Zhong received her Bachelor of Arts in English from the Civil Aviation University of China in July 1992. Ms. Zhong received her Executive Master of Business Administration from the China Europe International Business School in China in September 2005.

Non-executive Directors

Mr. Du Ping (杜平), aged 46, was appointed as our non-executive Director on 24 May 2017. He has been a financial controller of Lovable Holdings Limited since July 2005, where he is responsible for financial reporting and management. Mr. Du received his Bachelor of Accounting from the Capital University of Economics and Business (previously known as the Beijing Economics College (北京經濟學院)) in China in July 1993. Mr. Du received his Master of Business Administration from the National University of Singapore in August 2000. Mr. Du was admitted as a certified public accountant in China in November 1993 and as a Chinese accountant issued by the Ministry of Personnel and the Ministry of Finance in the PRC in October 1994.

Ms. Duan Lanchun (段蘭春), aged 42, was appointed as our non-executive Director on 31 August 2017. She has been a managing partner at Cathay Capital Private Equity, a private investment equity firm, since October 2010, where she is responsible for the management and operation of funds. From December 2003 to August 2008, Ms. Duan served at the Shanghai branch of Deloitte Touche Tohmatsu, where she last served as an associate director of the Financial Advisory Department.

Ms. Duan has been a director of Zbom Cabinets Co., Ltd. (志邦廚櫃股份有限公司), a company listed on the Shanghai Stock Exchange, since July 2017, responsible for decision-making at the level of the board of directors. She has also been a director of each of Shanghai Bandweaver Technology Company Limited (上海波匯科技股份有限公司) and SINO-KOR Plastic & Aesthetic Hospital Holding Co., Ltd. (華韓整形美容醫院控股股份有限公司) since August 2015 and June 2015, respectively, both of which are listed on the National Equities Exchange and Quotations.

Ms. Duan received her Bachelor's degree in Economics, majoring in Accounting, from Central University of Finance and Economics (中央財經大學) in July 1997. She obtained her Master's degree in Business Administration from the China Europe International Business School (中歐國際工商學院) in September 2010.

Independent Non-executive Directors

Mr. Cheng Yuk Wo (鄭毓和), aged 56, was appointed as our independent non-executive Director on 20 October 2017. Mr. Cheng is currently and has been a sole proprietor of Erik Cheng & Co., a certified public accountant practice in Hong Kong since December 1999. From 1989 to April 1992, Mr. Cheng served as a senior internal auditor in the ranking of an assistant treasurer at Swiss Bank Corporation (currently known as UBS AG) in Canada, where he was primarily responsible for financial controlling, audit and compliance matters. From August 1984 to October 1987, Mr. Cheng served as the audit supervisor of Coopers & Lybrand (currently known as PricewaterhouseCoopers) in the United Kingdom, where he was primarily responsible for audit matters.

Mr. Cheng also serves as a director of Chiu Chow Chamber of Commerce; Honorary Director of the Hong Kong Rehabilitation Power; and board member of Chartered Professional Accountants of Canada International – Hong Kong Chapter.

Mr. Cheng has been, an independent non-executive director of the following companies listed on the Stock Exchange in the three years preceding the Latest Practicable Date:

Period of Service	**Name of Company**
March 2017 – present	Somerley Capital Holdings Limited
December 2016 – present	Miricor Enterprises Holdings Limited
November 2015 – present	DTXS Silk Road Investment Holdings Company Limited
September 2014 – present	Chia Tai Enterprises International Limited
March 2014 – present	Liu Chong Hing Investment Limited
November 2010 – present	Top Spring International Holdings Limited
June 2008 – present	CPMC Holdings Limited
November 2007 – present	Goldbond Group Holdings Limited
September 2004 – present	Chong Hing Bank Limited
September 2004 – present	C.P. Lotus Corporation
July 2004 – present	HKC (Holdings) Limited
November 2002 – present	CSI Properties Limited
July 2010 – January 2016	Imagi International Holdings Limited

Notwithstanding Mr. Cheng's engagement as an independent non-executive director of 12 companies listed on the Stock Exchange, as advised and confirmed by Mr. Cheng, he has sufficient time to act as our independent non-executive Director based on the following:

(i) he has not found difficulties in devoting to and managing his time for numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties to our Company;

(ii) none of the listed companies that he has directorship with has questioned or complained about his time devoted to the listed companies; and

(iii) Mr. Cheng's role in our Group is non-executive in nature and he will not be involved in the daily management of our Group's business, thus his engagement as an independent non-executive Director will not require his full-time participation.

Based on the foregoing, our Directors do not have reasons to believe that the various positions currently held by Mr. Cheng will result in Mr. Cheng not having sufficient time to act as our independent non-executive Director or not properly discharging his fiduciary duties as a director of our Company.

Mr. Cheng received his Bachelor of Arts in Accounting from the University of Kent at Canterbury in the United Kingdom in July 1983 and his Master of Science (Economics) in Accounting and Finance from the London School of Economics and Political Science in the United Kingdom in August 1984. Mr. Cheng was admitted as a Fellow of the Hong Kong Society of Accountants (now known as the Hong Kong Institute of Certified Public Accountants) in January 1999. Mr. Cheng was admitted as a member of the Institute of Chartered Accountants of Ontario (now known as the Chartered Professional Accountants Ontario) in November 1990. Mr. Cheng was admitted as a member and a Fellow of the Institute of Chartered Accountants in England and Wales in December 1987 and August 1998, respectively.

Mr. Cheng was a director of Hexea Limited (秀達有限公司) which was solvent and incorporated in Hong Kong prior to its dissolution. Such company either never commenced business or ceased to carry on business for more than three months immediately before Mr. Cheng applied to deregister such company on 28 June 2004. Subsequently, such company was deregistered pursuant to section 291AA of the then predecessor Companies Ordinance on 19 November 2004. Mr. Cheng was a director of Jessica Group Limited which was solvent and incorporated in the Cayman Islands prior to its dissolution and was dissolved by striking off in the Cayman Islands on 28 March 2013. Mr. Cheng confirmed that, as at the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of such company.

Dr. Lam Lee G. (林家禮), aged 58, was appointed as our independent non-executive Director on 20 October 2017.

Dr. Lam has served as chairman of Hong Kong Cyberport Management Company Limited, non-executive chairman – Hong Kong and ASEAN region and chief adviser to Macquarie Infrastructure and Real Assets (Hong Kong) Limited since May 2015, a company engaged in the provision of infrastructure management services, which is part of the Macquarie Group, which in turn is listed on the Australian Securities Exchange. From May 2007 to March 2015, Dr. Lam served as the chairman – Indochina, Myanmar and Thailand and senior advisor – Asia of Macquarie Capital (Hong Kong) Limited, a company engaged in the provision of corporate advisory and capital markets services and is also part of the Macquarie Group. Dr. Lam last served as a managing director and global head of Telecommunications, Media and Technology Group, chief operating director and vice chairman of the investment banking division of BOC International Holdings Limited from September 2001 to April 2003, a subsidiary of Bank of China Ltd engaged in the provision of investment banking services, which in turn is listed on the Stock Exchange and the Shanghai Stock Exchange. Dr. Lam served as a partner at Heidrick & Struggles International, Inc., an executive search firm from December 1998 to October 1999, where he was responsible for management and board level executive search in Asia Pacific and lead the company in relation to the Chinese global business network. Dr. Lam served as the chief operating officer of Sanbao Telecom, from October 1997 to September 1998, a company engaged in the international telecommunication services where he was responsible for general operation matters. Dr. Lam served as the vice president/partner and head of Greater China and Asia head of telecommunications/media/technology at A.T. Kearney, Inc., a global management consulting firm, from September 1993 to January 1995, where he was responsible for overseeing the management consultancy business for telecommunication, media and high-technology clients in Asia. Dr. Lam served as the group operations director at New World Telephone Holdings Limited (previously known as Notfar Company Limited, a subsidiary of HKBN Ltd. engaged in the provision of telecommunication services, which in turn is listed on the Stock Exchange) in 1996, where he was responsible for operation matters.

Dr. Lam serves as honorary chairman – Asia Pacific of CMA Australia, vice chairman of the United Nations Economic and Social Commission for Asia and the Pacific Business Advisory Council and chairman of its Task Force on Banking and Finance, chairman of the Permanent Commission on Economic and Financial Issues of World Union of Small and Medium Enterprises, president of Hong Kong-ASEAN Economic Cooperation Foundation, chairman of Monte Jade Science and Technology Association of Hong Kong, director of the Hong Kong Vietnam Chamber of Commerce, vice chairman of the Hong Kong Myanmar Chamber of Commerce, vice president of the Hong Kong Real Property Federation, honorary advisor to the Hong Kong Business Angel Network, special adviser to the Asia Pacific Real Estates Association, committee member of the Chinese General Chamber of Commerce of Hong Kong and member of the Hong Kong Government's Committee on Innovation, Technology and Re-Industrialisation, the Hong Kong Council on Smoking and Health, the Council on Professional Conduct in Education, the Court of the City University of Hong Kong, Sir Murray MacLehose Trust Fund Investment Advisory Committee, the Hong Kong-Korea Business Council and the Hong Kong-Thailand Business Council.

Dr. Lam was, or has been, a non-executive director of the following listed companies in the three years preceding the Latest Practicable Date:

Period of Service	Name of the company
October 2017 - present	Adamas Finance Asia Limited, listed on the London Stock Exchange
September 2017 – present	Roma Group Limited, listed on the Stock Exchange
June 2017 – present	National Arts Entertainment and Culture Group Limited, listed on the Stock Exchange
October 2014 – present	China LNG Group Limited, listed on the Stock Exchange (Note: Dr. Lam was redesignated from an independent non-executive director to a non-executive director in April 2015)
February 2007 – present	Sunwah Kingsway Capital Holdings Limited, a subsidiary of Sunwah International Limited, listed on the Stock Exchange
October 2015 – December 2015	DTXS Silk Road Investment Holdings Company Limited, listed on the Stock Exchange
July 2014 – July 2015	ZH International Holdings Limited, listed on the Stock Exchange

Dr. Lam was, or has been, an independent non-executive director of the following listed companies in the three years preceding the Latest Practicable Date:

Period of Service	Name of the company
September 2017 – present	Highlight China IOT International Limited, listed on the Stock Exchange
September 2017 – present	Huarong Investment Stock Corporation Limited, listed on the Stock Exchange
September 2017 – present	Xi'an Haitian Antenna Holdings Co., Limited
April 2017 – present	Haitong Securities Co., Ltd., listed on the Stock Exchange and the Shanghai Stock Exchange

Period of Service	Name of the company
November 2015 – present	Elife Holdings Limited, listed on the Stock Exchange
November 2013 – present	Coalbank Limited, listed on the Australian Securities Exchange
December 2011 – present	Sunwah International Limited, listed on the Toronto Stock Exchange
April 2010 – present	Top Global Limited, listed on the Singapore Stock Exchange
October 2007 – present	Vietnam Equity Holding, listed on the Stuttgart Stock Exchange
June 2007 – present	Asia-Pacific Strategic Investments Limited, listed on the Singapore Stock Exchange
February 2007 – present	Mei Ah Entertainment Group Ltd., listed on the Stock Exchange
August 2005 – present	Vongroup Limited, listed on the Stock Exchange
September 2004 – present	Glorious Sun Enterprises Limited, listed on the Stock Exchange (Note: Dr. Lam was redesignated from a non-executive director to an independent non-executive director in August 2012)
June 2002 – present	Rowsley Limited, listed on the Singapore Stock Exchange
April 2001 – present	CSI Properties Limited, listed on the Stock Exchange
May 2010 – January 2016	Imagi International Holdings Limited, listed on the Stock Exchange
September 2014 – May 2015	Mingyuan Medicare Development Company Limited, listed on the Stock Exchange
July 2014 – March 2015	Ruifeng Petroleum Chemical Holdings Limited, listed on the Stock Exchange
January 2009 – August 2014	Next-Generation Satellite Communications Limited, listed on the Singapore Stock Exchange
September 2004 – December 2014	China Oceanwide Holdings Limited, listed on the Stock Exchange
September 2004 – October 2014	Far East Holdings International Limited, listed on the Stock Exchange

Notwithstanding Dr. Lam's engagement as an independent non-executive director or a non-executive director of 20 companies listed on the Stock Exchange or any securities market overseas, as advised and confirmed by Dr. Lam, he has sufficient time to act as our independent non-executive Director based on the following:

(i) he has not found difficulties in devoting to and managing his time for numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties to our Company;

(ii) none of the listed companies that he has directorship with has questioned or complained about his time devoted to the listed companies; and

(iii) Dr. Lam's role in our Group is non-executive in nature and he will not be involved in the daily management of our Group's business, thus his engagement as an independent non-executive Director will not require his full-time participation.

Based on the foregoing, our Directors do not have reasons to believe that the various positions currently held by Dr. Lam will result in Dr. Lam not having sufficient time to act as our independent non-executive Director or not properly discharging his fiduciary duties as a director of our Company.

Dr. Lam served as an independent non-executive director in Ruifeng Petroleum Chemical Holdings Limited ("**Ruifeng Petroleum"**) from 1 July 2014 to 30 March 2015, a company incorporated in the Cayman Islands which was listed on the Stock Exchange. It was previously engaged in the petrochemical business.

In March 2013, Mr. Xu Ziming commenced proceedings against Ruifeng Petroleum for an outstanding amount of a promissory note issued by Ruifeng Petroleum in 2011 (before Dr. Lam was appointed). Judgement was handed down on 6 May 2015 against Ruifeng Petroleum where it was required to pay the disputed sum plus interest (the "**Judgement Debt**"). On 20 July 2015, a statutory demand was served against Ruifeng Petroleum requiring it to pay the Judgement Debt within the stipulated period. On 12 August 2015, a winding-up petition of Ruifeng Petroleum was served on Ruifeng Petroleum. On 16 November 2015, Ruifeng Petroleum was wound up by the High Court of Hong Kong.

Trading in the Ruifeng Petroleum's shares were suspended since 2 April 2013 as Ruifeng Petroleum failed to publish the annual results for the year ended 31 December 2012 and subsequent periods. On 23 October 2015, the Stock Exchange proposed to exercise its rights to cancel Ruifeng Petroleum's listing. On 29 April 2016, the Growth Enterprise Market Listing Committee considered the resumption proposal submitted by Ruifeng Petroleum not viable and decided to cancel the listing of Ruifeng Petroleum's shares. Subsequent to unsuccessful review applications against such decision, on 6 February 2017, listing of Ruifeng Petroleum's shares on the Stock Exchange was cancelled.

Dr. Lam has confirmed that Ruifeng Petroleum was solvent when he was an independent non-executive director, and that at the time when the listing of Ruifeng Petroleum's shares was cancelled and as at the Latest Practicable Date, no claims have been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of Ruifeng Petroleum's dissolution.

Dr. Lam is a former member of the Hong Kong Bar Association, and was admitted as a solicitor of the High Court of Hong Kong since September 2014, and is an honorary fellow of Certified Public Accountants Australia and a fellow member of Certified Management Accountants Australia.

Dr. Lam received his Bachelor of Science in Mathematics – Science in May 1982, his Master of Science in Systems Science in October 1985 and his Master of Business Administration in March 1989 from the University of Ottawa in Canada; his Diploma in Public Administration from Carleton University in Canada in June 1988; his Postgraduate Diploma in English and Hong Kong Law (Common Professional Examination) in September 2005 and his Bachelor of Laws (Honours) in July 2006, both at the University of Hong Kong (SPACE) from Manchester Metropolitan University; and his Master of Laws (Corporate Law) from the University of Wolverhampton in the United Kingdom in October 2009. Dr. Lam also received his Postgraduate Certificate in Laws from the City University of Hong Kong in July 2008, his Certificate in Professional Accountancy from the School of Continuing and Professional Studies of the Chinese University of Hong Kong in September 2010, his Master of Public Administration in November 2013 and his Doctor of Philosophy from the University of Hong Kong in December 2004.

Dr. Lam was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were deregistered pursuant to section 291AA of the then predecessor Companies Ordinance or section 751 of the Companies Ordinance. The details of such companies are as follows:

Name of company	Date of submission of application for deregistration	Date of deregistration
China Consulting Limited	15 December 2010	29 April 2011
China Investment Partners Limited (中國賢能有限公司)	18 January 2011	3 June 2011
Green ICT Consortium Limited (綠色科技聯盟有限公司)	13 October 2014	6 March 2015
Hong Kong Hillston Investment Limited (香港興田投資有限公司)	22 September 2015	5 February 2016
Hong Kong Science & Technology Group Limited (香港科技集團有限公司)	27 June 2006	3 November 2006
Infinity Telecommunications Limited (電訊無限有限公司)	2 March 2001	13 July 2001
Lee G. Lam Associates Limited	2 April 2009	21 August 2009
Pacific Star Property Investment Limited (南盛置業有限公司)	2 April 2009	21 August 2009
Shini.Com Limited (是你網絡有限公司)	18 May 2004	8 October 2004
Worldwide Telecommunications Company Limited (通達電訊有限公司)	2 March 2011	13 July 2001

Note: Each of the above companies has either never commenced business or ceased to carry on business for more than three months immediately before the respective applications for deregistration.

Dr. Lam was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were dissolved by striking off by the Registrar of Companies in Hong Kong pursuant to section 291 of the then predecessor Companies Ordinance. The details of such companies are as follows:

Name of company	Date of struck off
Ecommerce Ventures Limited (電子商貿創投有限公司)	13 January 2006
i-STT Macau Limited (新科訊澳門有限公司)	10 February 2006
Singapore Technologies Telemedia (Hong Kong) Limited (新加坡科技電信媒體(香港)有限公司)	17 February 2006

Dr. Lam was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were dissolved by way of creditors' voluntary winding up. The details of such companies are as follows:

Name of company	Date of struck off
Ecommerce Data Center Limited (電子商貿數據中心有限公司)	21 May 2003
Elipva Hong Kong/China Limited	20 October 2002
i-STT Hong Kong Limited	19 October 2004

Dr. Lam confirmed that, as at the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of each of the above companies.

Mr. Lester Garson Huang (黃嘉純), aged 57, was appointed as an independent non-executive Director on 20 October 2017.

Mr. Huang is currently a practicing solicitor at P.C. Woo & Co., a law firm. He oversees the probate and trust administration practice. He was appointed as a co-chairman of P.C. Woo & Co. in January 2016.

Mr. Huang was, or has been, an independent non-executive director of the following listed companies in the three years preceding the Latest Practicable Date:

Period of Service	Name of company
November 2013 – present	Lam Soon (Hong Kong) Limited, listed on the Stock Exchange
September 2013 – September 2015	International Housewares Retail Company Limited, listed on the Stock Exchange

In July 2002, Mr. Huang was appointed by the Hong Kong Special Administrative Region Government as a Justice of the Peace. Mr. Huang serves as a member of the Hospital Authority from December 2012 and a non-executive director of the SFC from November 2015. He was the president of the Law Society of Hong Kong from 2007 to 2009. Mr. Huang is also a Fellow of The Hong Kong Institute of Directors from January 2000.

Mr. Huang received his Bachelor of Laws and his Postgraduate Certificate in Laws from the University of Hong Kong in September 1979 and November 1982 respectively and his Master of Education from the Chinese University of Hong Kong in December 2006. Mr. Huang was admitted as a solicitor in Hong Kong in March 1985, a solicitor in England and Wales in November 1990, a solicitor and barrister in Australia in February 1991, an advocate and solicitor in Singapore in February 1995, a Notary Public in Hong Kong in May 1997, a China-Appointed Attesting Officer in January 2003 and a Civil Celebrant of Marriages in May 2006.

Mr. Huang was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were deregistered pursuant to section 291AA of the then predecessor Companies Ordinance. The details of such companies are as follows:

Name of company	Date of submission of application for deregistration	Date of deregistration
Ample Top Limited (鎮緯有限公司)	21 September 2000	2 February 2001
Howa Limited (皓華有限公司)	13 December 2005	28 April 2006
Wiseview Investment Limited (慧港投資有限公司)	10 February 2001	15 June 2001

Note: Each of the above companies has either never commenced business or ceased to carry on business for more than three months immediately before the respective applications for deregistration.

Mr. Huang was a director of Holidor Company Limited which was solvent and incorporated in Hong Kong prior to its dissolution and was dissolved by striking off by the Registrar of Companies in Hong Kong pursuant to section 291 of the then predecessor Companies Ordinance on 25 April 2003. Mr. Huang confirmed that, as at the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened or potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of such company.

SENIOR MANAGEMENT

Ms. Zhang Ying (張瑩), aged 52, is our regional director and is responsible for overseeing our stores and our sales and operations in Northern China. Ms. Zhang is a director and general manager at Beijing Huizhilesi.

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

Mr. Yang Kewei (楊可為), aged 49, is our regional director and is responsible for overseeing our wholesale distribution and our sales and operations in Central China. Prior to joining our Group in July 2001, Mr. Yang served as the Central area manager at Beijing Hong Kong Garland Trading Company Ltd (北京京港嘉寧商業有限責任公司), a branded toys distributor from April 2000 to July 2001, where he was primarily responsible for the business and operations in the region. From February 1999 to February 2000, Mr. Yang served as the area sales manager at Xuzhou Henkel Detergents and Cleaning Products Co., Ltd., an chemical product company, where he was primarily responsible for the sale of detergent products in the region. From May 1997 to February 1999, Mr. Yang served as the acting toy priority city manager at East Asiatic Company Marketing Services China, which is a wholly-owned subsidiary of Santo Fe Group A/S which is listed on NASDAQ Copenhagen and is primarily engaged in the distribution of international consumer products, where he was primarily responsible for the toys business in the region. Mr. Yang received his Bachelor of Economics in Commercial Economics from the Business College of the Shanghai University in China in July 1989. Mr. Yang obtained the qualification of an assistant economist granted by the Shanghai Occupational Reform Leading Group (上海市職稱改革領導小組) in June 1998.

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

Ms. Zhang Weili (張偉麗), aged 53, is our regional director and is responsible for overseeing our consignment counters and our sales and operations in Southern China. Prior to joining our Group in July 2001, from June 1989 to July 1992, Ms. Zhang served as an assistant to the director at Airland Mattress Company HK Ltd. (Shenzhen) (香港雅蘭床具有限公司(深圳)) (now known as Shenzhen Furniture Ltd.), which is primarily engaged in the manufacturing and sales of mattresses and household products, where she was responsible for the management of the daily operations of the director's office and co-ordination of various departments. Ms. Zhang received her Bachelor of Business Administration, majoring in Industrial Electronic Automation, from Shanghai University in China in July 1985.

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

Ms. Chang Rong (常蓉), aged 48, is our director for finance management, human resources and information technology and is responsible for overseeing finance management, human resources and information technology management in the PRC. Prior to joining our Group in May 2004, from 1995 to 2000, Ms. Chang served as the regional finance manager at Jardine Logistics (China) Ltd., a logistics company, where she was primarily responsible for supervising its finance team. Ms. Chang received her Bachelor of Laws, majoring in Economic Law, from the Beijing Professional Business Institute in China in July 1992. Ms. Chang received her Master of Commerce in Accounting and Finance from Deakin University in Australia in April 2004. Ms. Chang was admitted as a certified public accountant in China in May 2001.

Mr. Liang Dasheng (梁大生), aged 46, is our sales and operations director and is responsible for the overseeing the sales management of our key accounts and infant products and the management of our supply chains. Prior to joining our Group in May 2013, Mr. Liang served as the senior sales operations manager at Asurion (Tianjin) Telecommunications Technology Services Co., Ltd. Beijing branch, which is primarily engaged in the provision of mobile protection services, from January 2012 to January 2013 where he was primarily responsible for sales operations and co-ordination and data analysis. From December 2007 to November 2011, Mr. Liang served as the retail and sales operations manager at Microsoft (China) Co., Ltd., which is primarily engaged in the provision of software and hardware products and listed on the NASDAQ stock exchange, where he was primarily responsible for product development, developing channel strategy, data mining and operations management. From June 2007 to December 2007, Mr. Liang served as the regional general manager at Double A International Network (Shanghai) Co., Ltd., which is primarily engaged in the production of integrated pulp and paper mill, where he was primarily responsible for business development and management. From March 2005 to February 2007, Mr. Liang served as the regional director for Northern China at Guangdong Shenchang Trading Company Limited* (廣東慎昌貿易有限公司), where he was primarily responsible for business management and development. From March 2000 to August 2003, Mr. Liang served as the sales development manager at PepsiCo (China) Limited Shanghai branch, which is primarily engaged in the beverage industry and listed on the New York stock exchange, where he was primarily responsible for sales management, strategy and execution. From November 1998 to March 2000, Mr. Liang served as a training consultant at AchieveGlobal, which is primarily engaged in the provision of training consultancy services, where he was responsible for providing training, business consultancy services and analysing customer needs. Mr. Liang received his College Diploma from Yangzhou University in Foreign Trade and International Business English in China in July 1991. Mr. Liang received his Executive Master of Business Administration from CIBT of Beijing Industrial University in General Business Management in China in September 2002. Mr. Liang received his Master of Business Administration from the City University in the U.S.A. in December 2003.

Ms. Cao Yuelin (曹玥琳), aged 43, is our marketing manager of our Group and is responsible for overseeing brand management and marketing strategies. Prior to joining our Group in July 2001, from March 1995 to March 1999, Ms. Cao last served as the sales supervisor of the toys department at East Asiatic Company where she was primarily responsible for sales and marketing in Beijing. Ms. Cao received her Bachelor of Technological Foreign Trade English from Beihang University in China in July 1994.

Mr. Ng Kwok Shek Marco (吳國碩), aged 41, is our general manager, Hong Kong retail and is responsible for overseeing retail operations in Hong Kong. Prior to joining our Group in June 2016, Mr. Ng served as the sales manager at Lane Crawford (Hong Kong) Limited, a premier retailer, from March 2013 to May 2016, where he was primarily responsible for the men's and women's sales operations management. From October 2010 to February 2013, Mr. Ng served as the operations director at Golfjunkie (China) Ltd., a retailer where he was primarily responsible for operations management. From July 2008 to September 2010, Mr. Ng served as the area manager at ImagineX Group, a premier retailer, where he was responsible for sales performance for the Marc Jacobs brand in Hong Kong. Mr. Ng finished his secondary school education at Hong Kong Sam Yuk Secondary School in June 1993.

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

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

JOINT COMPANY SECRETARIES

Ms. Wong Yuk Ki (王毓琦), aged 38, is one of our joint company secretaries and was appointed as a secretary of our Company on 26 April 2017. For details of her background, please refer to the paragraph headed "Senior Management" of this section.

Ms. Li Shan Mui (李珊梅), aged 43, is one of our joint company secretaries and was appointed as a secretary of our Company on 14 June 2017. Ms. Li was admitted as a certified public accountant in Hong Kong since January 2005, a fellow of the Association of Chartered Certified Accountants in April 2009, an associate member of The Taxation Institute of Hong Kong in September 2010 and Certified Tax Adviser in Hong Kong in September 2010. Ms. Li has extensive working experience in auditing, accounting, budgeting and financial analysis, and has more than seven years of experience in company secretarial, corporate governance and corporate finance roles. Ms. Li was the company secretary of Mayer Holdings Limited, a company listed on the Stock Exchange, from December 2014 to August 2017, and was its independent non-executive director from October 2014 to December 2014. Ms. Li was also the company secretary of Global Energy Resources International Group Limited, which is listed on the Growth Enterprise Market of the Stock Exchange, from January 2010 to March 2015.

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

BOARD COMMITTEE

Audit Committee

We have established an audit committee on 20 October 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee consists of three members, namely Mr. Cheng Yuk Wo, Mr. Huang Lester Garson and Dr. Lam Lee G.. The audit committee is chaired by Mr. Cheng Yuk Wo. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee on 20 October 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, namely Mr. Huang Lester Garson, Mr. Cheng Yuk Wo and Dr. Lo Wing Yan William. Two of the members which is the majority are our independent non-executive Directors. The remuneration committee is chaired by Mr. Huang Lester Garson, an independent non-executive Director. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Post-IPO Share Option Scheme.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

Nomination Committee

We have established a nomination committee on 20 October 2017 with written terms of reference. The nomination committee consists of three members, namely Dr. Lam Lee G., Mr. Cheng Yuk Wo and Mr. Huang Lester Garson. All of the members are our independent non-executive Directors. The chairman of the nomination committee is Dr. Lam Lee G. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

According to code provision A.2.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules, the role of the chairman and chief executive officer of our Company should be separate and should not be performed by the same individual.

Under the leadership of Mr. Lee, our Board works efficiently and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of our Board and relevant Board committee, and there are three independent non-executive Directors on our Board offering independent perspective, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within our Board. Our Board shall nevertheless review the structure and composition of our Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of our Company.

Save as disclosed above, we will comply with the code provisions stated in the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules after the Listing. Our Company is committed to the view that our Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgement.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration of our Directors (including fees, salaries and allowances, discretionary bonuses, retirement benefit schemes contributions schemes, housing allowances and other allowances and benefits in kind incurred by our Group for the three years ended 31 December 2014, 2015 and 2016 was approximately HK$682,000, HK$719,000 and HK$657,000, respectively.

The aggregate amount of remuneration including fees, salaries, discretionary bonuses, contributions to pension schemes, housing allowances and other allowances and benefits in kind which were paid by our Group (excluding the share-based compensation) to the five highest paid individuals for the years ended 31 December 2014, 2015 and 2016 was approximately HK$2,813,000, HK$2,977,000 and HK$3,010,000, respectively.

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 or as a compensation for loss of office in respect of the years ended 31 December 2014, 2015 and 2016. Further, none of our Directors waived any remuneration during the same periods.

Under the arrangement currently in force, the aggregate remuneration (including fee, salaries and allowances, retirement benefit schemes contributions, share-based compensation and benefit in kind) of our Directors for the year ending 31 December 2017 is estimated to be no more than HK$1,631,000.

SHARE OPTION SCHEMES

We have adopted the Post-IPO Share Option Scheme conditionally and the Pre-IPO Share Option Scheme on 20 October 2017. For details of the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme, please refer to the sections headed "Statutory and General Information – D. Other information – 1. Post-IPO Share Option Scheme" and "Statutory and General Information – D. Other information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

COMPLIANCE ADVISOR

We have appointed Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the net 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

(d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately upon the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Post-IPO Share Option Scheme):

Authorised share capital:		*Nominal value* *HK$*
50,000,000,000	Shares of HK$0.01 each	500,000,000

Issued and to be issued, fully paid or credited as fully paid:		*Nominal value* *HK$*
100,003	Shares in issue as at the date of this prospectus	1,000.03
599,899,997	Shares to be issued pursuant to the Capitalisation Issue	5,998,999.97
200,000,000	Shares to be issued under the Global Offering	2,000,000
800,000,000	Total	8,000,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering and Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Post-IPO Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKINGS

The Offer Shares will be ordinary Shares in the share capital of our Company and will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of not more than the sum of:

(1) 20% of the total number of Shares of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme); and

(2) the total number of Shares of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme.

This general mandate to issue Shares will remain in effect until the earliest of:

(i) the conclusion of our Company's next annual general meeting; or

(ii) the expiry of the period within which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information – A. Further information about our Group – 3. Resolutions in writing of our Shareholders passed on 20 October 2017" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total number of Shares of not more than 10% of the total number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information – A. Further information about our Group – 6. Repurchases of our Shares" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will remain in effect until the earliest of:

(i) the conclusion of our Company's next annual general meeting; or

(ii) the expiry of the period within which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information – A. Further information about our Group – 3. Resolutions in writing of our Shareholders passed on 20 October 2017" in Appendix IV to this prospectus.

SHARE OPTION SCHEMES

Pursuant to the written resolutions of our Shareholders dated 20 October 2017, we conditionally adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. Summaries of the principal terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are set out in the section headed "Statutory and General Information – D. Other information – 1. Post-IPO Share Option Scheme" and "Statutory and General Information – D. Other information – 2. Pre-IPO Share Option Scheme" in Appendix IV to this prospectus, respectively.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its share capital or capital redemption reserve by its shareholders passing special resolution. For further details, please refer to the section headed "Summary of the Constitution of our Company and Cayman Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to our Shares or any class of our Shares may 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 our Shares of that class. For further details, please refer to the section headed "Summary of the Constitution of our Company and Cayman Company Law – 2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

So far as is known to our Directors or chief executive officer as at the Latest Practicable Date, the following persons will, immediately prior to and following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme), have interests or short positions in our Shares or underlying Shares which fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

(a) Interests in our Company

Name of Shareholder	**Nature of interest**	**Shares held as at the date of submission of the application for Listing**		**Shares held immediately following the completion of the Capitalisation Issue and the Global Offering**	
		Number (Note 1)	*Percentage (approx.)*	*Number (Note 1)*	*Percentage (approx.)*
Asian Glory *(Note 2)*	Beneficial owner; interest in controlled corporation	74,873(L)	74.87%	449,224,523(L)	56.153%
Mr. Lee	Interest in controlled corporation *(Note 3)*	74,873(L)	74.87%	449,224,523(L)	56.153%
	Beneficial owner *(Note 4)*	–	–	4,000,000	0.5%
Ms. Tang Hoi Lun *(Note 5)*	Interest of spouse	74,873(L)	74.87%	453,224,523(L)	56.653%
Eurojoy	Beneficial owner	13,130(L)	13.13%	78,777,637(L)	9.847%
FCPR Cathay Capital II *(Note 6)*	Interest in controlled corporation	13,130(L)	13.13%	78,777,637(L)	9.847%

Notes:

(1) The letter "L" denotes a long position in our Shares.

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

(3) Mr. Lee is the sole shareholder of Asian Glory. By virtue of the SFO, Mr. Lee is deemed to be interested in the Shares which Asian Glory is interested in.

(4) This represents the number of Shares which maybe allotted and issued to Mr. Lee upon exercise of the options granted to him pursuant to the Pre-IPO Share Option Scheme.

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

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

Except as disclosed in this prospectus, our Directors and our chief executive officer are not aware of any person who will, immediately prior to and following the completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme), have interests or short positions in any Shares or underlying Shares, which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

You should read the following discussion and analysis in conjunction with our combined financial information included in "Appendix I – Accountants' Report" and "Appendix II – Unaudited Pro Forma Financial Information". The accountants' report has been prepared by Deloitte Touche Tohmatsu and CHENG & CHENG LIMITED, both being Certified Public Accountants, Hong Kong in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This discussion contains forward-looking statements that reflect our current view with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

Our Group is principally engaged in the retail and wholesale of toys and infant products in the PRC. Our retail sales of toys in Hong Kong started only from FY2016 and the four months ended 30 April 2017, and accounted for approximately 1.9% and 3.2% of our revenue for respective period.

As at 30 April 2017, we sourced a wide range of toys and infant products of 26 international brands from our 23 brand owners. We are the largest toy retailer, in terms of retail sales value, in FY2016 in the PRC with approximately 14% market share according to the Euromonitor Report.

We experienced moderate growth in our revenue during the Track Record Period. Our revenue increased from approximately HK$1,324.6 million for FY2014 to approximately HK$1,561.3 million for FY2015, and further increased to approximately HK$1,638.4 million for FY2016. Our revenue increased from approximately HK$499.0 million for the four months ended 30 April 2016 to approximately HK$566.7 million for the four months ended 30 April 2017. Our profit for the year (before deduction of non-controlling interest) increased from approximately HK$100.6 million for FY2014 to approximately HK$109.1 million for FY2015 and decreased to approximately HK$90.0 million for FY2016. Our profit for the year (before deduction of non-controlling interest) increased from approximately HK$20.1 million for the four months ended 30 April 2016 to approximately HK$25.6 million for the four months ended 30 April 2017. Our Directors believe the changes was a result of: (i) a steady growth of the GDP in the PRC and a growing demand for toys and infant products; (ii) depreciation of RMB against HK$ during the Track Record Period; and (iii) one-off expense relating to the Listing incurred during FY2016 and the four months ended 30 April 2017.

BASIS OF PRESENTATION

Prior to the Reorganisation as detailed in the section headed "History, Reorganisation and Corporate Structure" in this Prospectus, Kidsland Holdings and Silverkids, the holding companies of the companies now comprising our Group, were controlled by Lovable International Holdings Limited ("**Lovable International Holdings**"). On 29 May 2017, the Reorganisation was completed to the extent that our Company, had been interspersed between Lovable International Holdings on the one part and, Kidsland Holdings and Silverkids on the other part. Our Group, comprising our Company, Kidsland Holdings and Silverkids and their respective subsidiaries, resulting from the Reorganisation has always been under the common control of Lovable International Holdings throughout the Track Record Period or from the respective incorporated after 31 December 2016, since their respective dates of incorporation, regardless of the actual dates when they formally and legally became subsidiaries of the Company. The Reorganisation is considered as a business combination under common control and accounted for under merger accounting.

Our combined statements of profit or loss and other comprehensive income and combined statements of cash flows which include the financial performance and cash flows of the companies now comprising our Group for the Track Record Period have been prepared as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

The combined statements of financial position at 31 December 2014, 2015 and 2016 and 30 April 2017 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the respective date of establishment/incorporation of the relevant entity.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on combination.

FACTORS AFFECTING OUR GROUP'S RESULTS AND FINANCIAL POSITION

Our Group's business, financial position and operating results as well as the period-to-period comparability of our operating results have been, and are expected to continue to be, affected by a number of factors. These include the following:

Macro economic growth and levels of per capita consumer spending in the PRC

Our results of operation and financial condition are affected by the economic development and levels of per capita consumer spending in the PRC. The continued growth in our revenue is subject to the continued expansion in international trade and increase in consumer spending and confidence in the PRC.

During the Track Record Period, our Group is principally engaged in retail sales and distribution of toys and infant products in the PRC. Most of our revenues are attributable to subsidiaries operating in the PRC, and our Group's business is therefore dependent on the financial condition of end-customers (mostly, parents of infants, children and adults) in the PRC.

According to Euromonitor Report, GDP of the PRC increased from approximately RMB48,930 billion in 2011 to approximately RMB74,413 billion in 2016 (representing a CAGR of approximately 8.7%), while GDP per capita increased from approximately RMB36,403 in 2011 to RMB50,251 trillion in 2015 (representing a CAGR of 8.4%) The growth of national economy of the PRC was a driving force for the increasing demand for toys and infant products in the region. We believe this is one of the reasons for the growth of our revenue during the Track Record Period.

Expansion of our self-operated retail network and our distribution channels

We made retail sales through our self-operated retail network, comprising retail points and consignment counters in department stores. Our self-operated retail network generally expanded during the Track Record Period. As at 31 December 2014, 2015 and 2016, we had 624, 695 and 740 self-operated retail points, respectively, representing a CAGR of 9.1% from 31 December 2014 to 31 December 2016. As at 30 April 2017, we had 754 self-operated retail points, respectively, representing a growth of 1.8% from 31 December 2016 to 30 April 2017. The revenue attributable to our self-operated retail network amounted to HK$811.4 million, HK$961.1 million, HK$1,047.7 million, HK$330.4 million and HK$391.9 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively, representing 61.2%, 61.6%, 63.9%, 66.2% and 69.2% of our revenue, respectively.

Our Group is also engaged in the wholesaling of toys and infant products to other wholesalers in the PRC, which include hypermarkets supermarkets and online key accounts in the PRC. The total number of distributors of our Group generally increased during the Track Record Period. We also had 573, 694 and 805 distributors as at 31 December 2014, 2015 and 2016, representing a CAGR of 18.5% from 31 December 2014 to 31 December 2016. We also had 878 distributors as at 30 April 2017. The revenue attributable to such distribution business amounted to HK$513.2 million, HK$600.2 million, HK$590.7 million, HK$168.6 million and HK$174.8 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively, representing 38.8%, 38.4%, 36.1%, 33.8% and 30.8% of our revenue of corresponding period, respectively.

Our future growth will depend on our ability to expand our self-operated retail network as well as our distribution channels. Failure to expand such network and channels may result in limited growth and reduced profitability.

Cost of goods sold

Our Group is only engaged in retail and wholesale of toys and infant products. We are not engaged in any manufacturing activities. Our cost of goods sold represent mainly costs of purchases from brand owners which are multinational corporations that own various international brands of toys or infant products. Our total purchases amounted to HK$774.6 million, HK$878.7 million, HK$913.1 million, HK$286.1 million and HK$239.1 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively. Such cost of goods sold amounted to HK$680.0 million, HK$777.1 million, HK$820.6 million, HK$263.3 million and HK$288.0 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively, and accounted for approximately 51.3%, 49.8%, 50.1%, 52.8% and 50.8% of our revenue in the corresponding years. During the Track Record Period, a substantial amount of our toy and infant products were sourced from our largest brand owner, which accounted for approximately 63.2%, 67.5%, 66.2% and 64.6% of our total purchases for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively.

Our costs for purchasing toy and infant products from our brand owners are usually calculated in accordance with the formula stipulated in relevant distributorship agreements we entered into with our brand owners with reference to the suggested retail price. As at the Latest Practicable Date, we did not maintain any hedging policies protecting us from exposure to the price fluctuations in cost of goods sold, nor do we have any cost control measures to mitigate our exposure to the fluctuation of the cost of our toy and infant products. As the distributorship agreements we entered into with our brand owners are generally of a duration ranged from two to five years, any significant change in the terms on (among other things) purchase price of such toy and infant products upon the renewal of such distributorship agreements may have a significant impact on our cost of goods sold and our results of operations, if such changes will result in increased costs that we are unable to pass on to our customers.

Consignment expenses and rentals

We derived approximately 56.7%, 59.5%, 59.9%, 64.2% and 65.9% of our revenue from sales generated through our self-operated retail points and consignment counters for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively. The total consignment expenses for our consignment counters and rentals and management fee for our retail points calculated as a percentage of our revenue generated from such network are approximately 19.0%, 19.5%, 20.9%, 20.5% and 21.2% for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, respectively. If the department store-operators increase the consignment fees or if our lessors increase the rentals when the relevant agreements are renewed, our results of operations may be adversely affected, if we are not able to pass on the increased costs to our customers.

Staff compensation expense

Staff compensation expense is one of the significant components of our total costs. As at the Latest Practicable Date, we had a total of 649 employees.

Our staff related costs (including salaries and contributions to social security) in relation to our selling and distribution costs for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017 amounted to HK$131.0 million, HK$164.5 million, HK$177.7 million, HK$52.8 million and HK$55.3 million, respectively, representing 26.5%, 26.9%, 27.4%, 27.1% and 25.6% of our total selling and distribution costs, respectively. We seek to motivate our sales representatives by performance-related incentive payments in addition to their basic salaries. During the Track Record Period, our sales representatives received commission based on their ability to meet certain performance indicators (including the monthly sales targets).

Staff related costs (including director emoluments) (including salaries and contributions to social security) in relation to our administrative expenses for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017 were HK$14.8 million, HK$19.4 million, HK$21.8 million, HK$9.3 million and HK$12.2 million, respectively, representing 37.6%, 36.0%, 33.9%, 44.8% and 43.9% of our total administrative expenses, respectively.

In May 2017, we entered into an outsourcing agreement with a human resources company, pursuant to which we outsourced to that company the employment of our sales staff at our retail shops and consignment counters. For details, please refer to the section headed "Business – Human Resources – Outsourcing arrangement" in this prospectus. Accordingly, a substantial part of our cost of using sales staff previously booked as our staff costs and related expenses before May 2017 will be in the future booked as our service fee payable to the human resource company.

Brand owners and brand portfolio

The quality and quantity of brands within our brand portfolio are the key to our results of operations and our ability to maintain our profitability. We distribute a wide variety of toy products and infant products sourced from international corporations under a number of well-known brands. For details, please refer to the section headed "Business – Our Products Offering". We believe that we also benefit from the high quality of this brand portfolio, when seeking authorisations from new premium brands.

Our profitability is affected by the mix of brands and products we offer. Different brand owners vary in terms of product mix, product pricing strategies, as well as terms on discounts and rebates, sales targets, credit and limitations on distribution areas and channels.

For FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, purchases from our largest brand owner amounted to approximately HK$489.4 million, HK$592.7 million, HK$604.3 million, HK$205.4 million and HK$154.5 million respectively, representing approximately 63.2%, 67.5%, 66.2%, 71.8% and 64.6%, respectively of our total purchases for the corresponding periods. As our largest brand owner is one of the world's leading manufacturers of construction toys for people of different ages, we rely to a certain extent on the product quality and the brand popularity of our largest brand owner.

We believe that establishing and maintaining mutually beneficial relationships with our brand owners is essential to our success. We rely on our brand owners to provide us with sufficient quantities of high quality products that meet consumers demand. We strive to maintain an optimal brand portfolio by strengthening our strategic business relationships with our existing brand owners and adding new brands of products to our brand and product portfolio.

Product mix

The mix of products that we sell affects our operating results. Our product mix affects our gross profit margins as different types of products have different selling prices and cost of goods sold. Our products are classified into the following two main categories, namely, toy products and infant products. Sales of our toy products and infant products accounted for approximately 91.2% and 8.8% of our revenue for FY2014, accounted for approximately 91.7% and 8.3% of our revenue for FY2015 and accounted for approximately 90.1% and 9.9% of our revenue for FY2016, respectively. Sales of our toy products and infant products accounted for approximately 91.2% and 8.8% of our revenue for the four months ended 30 April 2016, accounted for approximately 90.6% and 9.4% of our revenue for the four months ended 30 April 2017, respectively. The gross profit margin of our toy products and infant products were approximately 48.1% and 54.8% for FY2014, approximately 49.6% and 56.7% for FY2015, and were approximately 49.1% and 57.2% for FY2016, respectively. The gross profit margin of our toy products and infant products were approximately 46.8% and 51.8% for the four months ended 30 April 2016, approximately 48.1% and 59.7% for the four months ended 30 April 2017. Our Directors consider that a change of product mix may result in the change of our gross profit margin and our overall profitability.

SENSITIVITY ANALYSIS

As discussed above, our management believe that our profitability will be greatly dependent on the fluctuation or trend of the consignment expenses, rentals and management fee and exchange rate.

As at the Latest Practicable Date, we did not maintain any hedging policies for managing foreign exchange rate risk.

Consignment expenses, rentals expenses and management fee

The table below sets forth a sensitivity analysis for our consignment expenses, rentals expenses and management fee, illustrating its impact on our profit before taxation if our consignment expenses and rentals expenses for our retail points had been 5%, 10% and 15% higher or lower during the Track Record Period, assuming all other variables were held constant:

	For FY2014	For FY2015	For FY2016	For the four months ended 30 April 2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
If consignment expenses, rentals expenses and management fee had been 5% higher/lower					
Decrease/increase in profit before taxation	-/+12,602	-/+15,206	-/+17,090	-/+5,119	-/+6,001
If consignment expenses, rentals expenses and management fee had been 10% higher/lower					
Decrease/increase in profit before taxation	-/+25,204	-/+30,412	-/+34,181	-/+10,238	-/+12,002
If consignment expenses, rentals expenses and management fee had been 15% higher/lower					
Decrease/increase in profit before taxation	-/+37,806	-/+45,619	-/+51,271	-/+15,357	-/+18,003

Exchange rate

For a sensitivity analysis of the effect of the changes in exchange rates on our profit, please refer to note 25 of the "Appendix I – Accountant's report" in this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our combined financial statements. Our significant accounting policies and key sources of estimation uncertainty, which are important for you to understand our financial condition and results of operations, are set forth in detail in Notes 4 and 5 to "Appendix I – Accountants' Report" to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex estimation uncertainty relating to accounting items. In each case, the determination of these items requires management estimation based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the estimation uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We have set forth below those accounting policies that we believe involve the most significant estimates and uncertainties used in preparing of our financial statements.

Revenue recognition

We measure our revenue at the fair value of the consideration received or receivable. We reduce our revenue for estimated customers returns, rebates and other similar allowance.

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

We recognise our revenue from the sale of goods when the goods are delivered and titles have passed.

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

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

Inventories

Our inventories are stated at the lower of cost and net realisable value. We determine our costs of inventories by the weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Provisions

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

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

Foreign currencies

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

We recognise exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, in profit or loss in the period in which they arise.

For the purposes of presenting the historical financial information, we translate the assets and liabilities of our Group's foreign operations into the presentation currency of our Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

Leasing

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

Our Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment and depreciation

We state property, plant and equipment in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Taxation

Our income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

We review the carrying amount of deferred tax assets at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

Government grants

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

We recognise government grants in profit or loss on a systematic basis over the periods in which our Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants, whose primary condition is for our Group to purchase, construct or otherwise acquire non-current assets, are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to our Group with no future related costs are recognised in profit or loss in the period in which they become receivable. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Estimation uncertainty

Estimated allowance for inventories

Our inventories are valued at the lower of cost and net realisable value. Our Group regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When our Group identifies items of inventories which have a realisable value that is lower than its carrying amount, our Group estimates the amount of write-down of inventories as allowance for inventories. If the realisable value of our inventories becomes much lower than its carrying amount subsequently, additional allowance may be required.

Estimated allowance for trade receivables

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

DESCRIPTIONS OF PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table summarises our combined results during the Track Record Period which is extracted from the historical financial information section of the Accountants' Report, the text of which is set forth in Appendix I to this prospectus, and illustrates certain items in our combined statements of profit or loss expressed as a percentage of revenue for the Track Record Period:

							For the four months ended 30 April			
	For FY2014		**For FY2015**		**For FY2016**		**2016**		**2017**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue	1,324,649	100.0	1,561,291	100.0	1,638,374	100.0	498,979	100.0	566,719	100.0
Cost of goods sold	(679,970)	(51.3)	(777,132)	(49.8)	(820,584)	(50.1)	(263,326)	(52.8)	(288,001)	(50.8)
Gross profit	644,679	48.7	784,159	50.2	817,790	49.9	235,653	47.2	278,718	49.2
Other income	21,651	1.6	25,679	1.7	20,374	1.2	6,467	1.3	5,035	0.9
Other gains and losses	(5,650)	(0.4)	(10,265)	(0.7)	1,256	0.1	1,911	0.4	(2,342)	(0.4)
Selling and distribution expenses	(493,952)	(37.3)	(612,224)	(39.2)	(648,808)	(39.6)	(194,554)	(39.0)	(216,387)	(38.2)
General and administrative expenses	(39,274)	(3.0)	(53,859)	(3.4)	(64,443)	(3.9)	(20,757)	(4.2)	(27,788)	(4.9)
Listing expenses	–	–	–	–	(8,525)	(0.5)	(1,605)	(0.3)	(3,001)	(0.5)
Profit before tax	127,454	9.6	133,490	8.6	117,644	7.2	27,115	5.4	34,235	6.1
Income tax expense	(26,807)	(2.0)	(24,348)	(1.6)	(27,658)	(1.7)	(6,985)	(1.4)	(8,658)	(1.6)
Profit for the year	100,647	7.6	109,142	7.0	89,986	5.5	20,130	4.0	25,577	4.5
Other comprehensive income/(expense)										
Exchange differences	4,063	0.3	(22,549)	(1.4)	(30,383)	(1.9)	(5,796)	(1.2)	(7,419)	(1.3)
Total comprehensive income for the year/period	104,710	7.9	86,593	5.6	59,603	3.6	14,334	2.9	18,158	3.2

Revenue

Our revenue consists of mainly sales of toy products and sales of infant products. The following table sets forth our revenue breakdown net of sales tax and return by category for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April			
							2016		2017	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue										
Sales of toy products	1,243,815	93.9	1,470,049	94.2	1,511,375	92.3	468,243	93.8	525,532	92.7
Less: Sales return	(26,771)	(2.0)	(30,022)	(1.9)	(26,155)	(1.6)	(9,987)	(2.0)	(8,076)	(1.4)
Less: Sales tax	(8,338)	(0.7)	(7,945)	(0.6)	(9,757)	(0.6)	(3,066)	(0.6)	(3,778)	(0.7)
	1,208,706	91.2	1,432,082	91.7	1,475,463	90.1	455,190	91.2	513,678	90.6
Sales of infant products	123,608	9.3	138,030	8.8	171,347	10.5	47,956	9.6	56,719	10.0
Less: Sales return	(6,452)	(0.4)	(7,753)	(0.4)	(7,518)	(0.5)	(2,697)	(0.5)	(2,495)	(0.4)
Less: Sales tax	(1,213)	(0.1)	(1,068)	(0.1)	(918)	(0.1)	(270)	(0.1)	(283)	(0.1)
Less: deferred income	–	–	–	–	–	–	(1,200)	(0.2)	(900)	(0.1)
	115,943	8.8	129,209	8.3	162,911	9.9	43,789	8.8	53,041	9.4
	1,324,649	100.0	1,561,291	100.0	1,638,374	100.0	498,979	100.0	566,719	100.0

We experienced an increase in our revenue during the Track Record Period. Our revenue increased significantly from approximately HK$1,324.6 million for FY2014 to approximately HK$1,638.4 million for FY2016, representing a CAGR of 11.2%. Our revenue increased from approximately HK$499.0 million for the four months ended 30 April 2016 to approximately HK$566.7 million for the four months ended 30 April 2017, representing a growth of approximately 13.6%. The growth in our revenue during the Track Record Period reflected that we introduced 11 new brand owners and increase in the number of retail points and distributors.

During the Track Record Period, sales of toy products accounted for a large portion of our revenue, while sales of infant products accounted for a relatively smaller portion of our revenue. For FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017, our revenue from sales of toy products accounted for approximately 91.2%, 91.7%, 90.1%, 91.2% and 90.6% of our revenue, respectively, while our revenue from sales of infant products accounted for approximately 8.8%, 8.3%, 9.9%, 8.8% and 9.4%, respectively, during the corresponding periods.

Sales return represents products returned from our customers in our self-operated retail channels and wholesale channels during the Track Record Period. Such sales return were principally due to defects of our products which will be subsequently returned to brand owners.

For each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, our revenue from our five largest customers accounted for approximately 7.9%, 5.3%, 6.6%, 5.3% of our revenue, respectively. The general decrease in the percentage of contribution of revenue from our five largest customers from approximately 7.9% in FY2014 to approximately 5.3% in FY2015 and a slight increase of approximately 6.6% in FY2016 and decreased to approximately 5.3% for the four months ended 30 April 2017 was due to widening of our customer base and the increase in sales through our self-operated retail channels during the Track Record Period.

The following table sets forth our revenue breakdown by distribution channel for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Self-operated retail channels										
– retail shops	277.4	20.9	368.6	23.6	443.4	27.0	136.8	27.4	168.7	29.8
– consignment counters	474.5	35.8	559.4	35.9	539.0	32.9	183.6	36.8	204.5	36.1
– online retail stores	59.5	4.5	33.1	2.1	65.3	4.0	10.0	2.0	18.7	3.3
	811.4	61.2	961.1	61.6	1,047.7	63.9	330.4	66.2	391.9	69.2
Wholesale channels										
– Online/offline wholesale										
• distributors	406.1	30.7	528.0	33.8	514.2	31.4	150.5	30.2	151.7	26.8
• hypermarkets and supermarket chains	39.4	3.0	34.6	2.2	36.0	2.2	7.7	1.5	12.5	2.2
• online key accounts	67.7	5.1	37.6	2.4	40.5	2.5	10.4	2.1	10.6	1.8
	513.2	38.8	600.2	38.4	590.7	36.1	168.6	33.8	174.8	30.8
	1,324.6	100.0	1,561.3	100.0	1,638.4	100.0	499.0	100.0	566.7	100.0

During the Track Record Period, our retail business grew faster than our wholesale business. Our sales through our self-operated retail channels showed an increasing trend from approximately 61.2% of our revenue for FY2014 to approximately 63.9% of our revenue for FY2016, and increased from approximately 66.2% of our revenue for the four months ended 30 April 2016 to approximately 69.2% of our revenue for the four months ended 30 April 2017. As opposed, our sales through wholesale channels showed a decreasing trend from approximately 38.8% of our revenue for FY2014 to approximately 36.1% of our revenue for FY2016, and decreased from approximately 33.8% of our revenue for the four months ended 30 April 2016 to approximately 30.8% of our revenue for the four months ended 30 April 2017.

During the Track Record Period, we recorded an increase in revenue attributable to our retail shops from about HK$277.4 million for FY2014 to about HK$443.4 million for FY2016. Despite an increase in the number of our consignment counters from about 497 as at 31 December 2015 to about 524 as at 31 December 2016, we experienced a decrease in revenue attributable to our consignment counters from about HK$559.4 million for FY2015 to about HK$539.0 million for FY2016. The decrease in revenue from consignment counters was mainly attributable to the devaluation of RMB against HK$ during FY2014, FY2015 and FY2016. We believe the decrease was a result of our strategy to expand our distribution networks through opening more new consignment counters, expecting that these new consignment counters will create a synergy effect of a larger distribution network. Besides, there was a decreasing retail sales value attributable to department stores, and hypermarkets and supermarkets vis-à-vis an increasing sales attributable to traditional toy and game stores which are mostly located in shopping malls in the PRC, which in turn was mainly due to the change in the shopping habit of consumers in recent years, that they become more preferred to shop in malls (as opposed to department stores) which provide one-stop shopping environment (including shopping, dining and entertainment). Nevertheless, it is our strategy to expand our distribution networks through opening more new consignment counters, expecting that these new consignment counters will create a synergy effect via a larger network. For details, please refer to the paragraphs headed "Industry Overview – Distribution Channels" in this prospectus.

Subsequent to FY2016, our retail sales revenue from retail shops and consignment counters accounted for approximately HK$168.7 million and HK$204.5 million for the four months ended 30 April 2017, respectively, representing an increase of approximately 23.3% and 11.4% as compared to the sales revenue from retails shops and consignment counters of HK$136.8 million and HK$183.6 million in the corresponding periods in 2016, respectively. The increase in revenue was primarily a result of our effort in holding promotional campaigns and our special promotional offers given to members of our membership programme. The relatively stable exchange rate between RMB and HK$ during the four months ended 30 April 2017 also contributed to the growth in sales from retail shops and consignment counters for the four months ended 30 April 2017 as the devaluation of RMB against HK$ during the four months ended 30 April 2016 had a unfavourable effect on our revenue during the period.

The number of our distributors increased from 694 as at 31 December 2015 to about 805 as at 31 December 2016, but we experienced a decrease in revenue attributable to distributors from about HK$528.0 million for FY2015 to about HK$514.2 million for FY2016. The decrease in revenue from distributors was mainly attributable to the devaluation of RMB against HK$ during FY2014, FY2015 and FY2016. There was a decrease in revenue generated per distributor because the market is becoming more saturated and each distributor was sharing a smaller market. Nevertheless, it is our strategy to expand our distribution networks and presences to Tier 2 and Tier 3 cities by engaging new distributors. We expect our sales revenue generated from these new distributors will gradually increase as these new distributors build up our presence in their regions of operations.

Subsequent to FY2016, our sales revenue from wholesale distributors accounted for approximately HK$151.7 million for the four months ended 30 April 2017, representing an increase of approximately 0.8% as compared to the sales revenue from wholesale distributors of HK$150.5 million in the corresponding periods in 2016. The increase in revenue was primarily a result of our effort in providing incentives and giving marketing support (e.g. placing advertisements) to our wholesale distributors. The relatively stable exchange rate between RMB and HK$ during the four months ended 30 April 2017 also contributed to the growth in sales from retail shops and consignment counters for the four months ended 30 April 2017 as the devaluation of RMB against HK$ during the four months ended 30 April 2016 had a unfavourable effect on our revenue during the period.

Growth in comparable self-operated retail points sales during comparable periods

The following table sets forth our comparable retail points sales for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017:

	FY2014	For FY2015	FY2016	For the four months ended 30 April 2017
Self-operated retail points				
A. Retail shops				
Number of comparable retail shops[1]	71	92	130	182
Average revenue per comparable retail shops				
– current year (RMB'000)	2,457.9	2,359.6	2,432.4	744.5
– prior year (RMB'000)	1,949.3	2,182.4	2,256.0	670.1
Growth in comparable retail shops sales during comparable periods	26.1%	8.1%	7.8%	11.1%
B. Consignment counters				
Number of comparable consignment counters[1]	262	302	371	428
Average revenue per comparable consignment counter				
– current year (RMB'000)	1,317.6	1,344.2	1,193.9	576.8
– prior year (RMB'000)	1,170.9	1,244.8	1,246.1	529.9
Growth in comparable consignment counter sales during comparable periods	12.5%	8.0%	(4.2)%	8.9%
C. Overall				
Number of comparable retail points[1]	333	394	501	610
Average revenue per comparable retail point				
– current year (RMB'000)	1,560.8	1,581.3	1,515.3	626.8
– prior year (RMB'000)	1,336.8	1,463.7	1,508.1	571.7
Growth in comparable retail point sales during comparable periods	16.8%	8.0%	0.5%	9.6%

The following table sets forth our comparable retail points sales of LEGO products for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017:

Self-operated retail points	**FY2014**	**For FY2015**	**FY2016**	**For the four months ended 30 April 2017**
A. Retail shops				
Number of comparable retail shops[1]	56	71	90	136
Average revenue of LEGO products per comparable retail shops				
– current year (RMB'000)	1,760	1,743	1,843	554
– prior year (RMB'000)	1,342	1,567	1,738	519
Growth in comparable retail shops sales of LEGO products during comparable periods	31.18%	11.19%	6.06%	6.79%
B. Consignment counters				
Number of comparable consignment counters[1]	187	208	231	260
Average revenue of LEGO products per comparable consignment counter				
– current year (RMB'000)	1,070	1,171	1,077	401
– prior year (RMB'000)	858	1,072	1,105	370
Growth in comparable consignment counter sales of LEGO products during comparable periods	24.68%	9.21%	(2.50)%	8.24%
C. Overall				
Number of comparable retail points[1]	243	279	321	396
Average revenue of LEGO products per comparable retail point				
– current year (RMB'000)	1,229	1,316	1,292	453
– prior year (RMB'000)	970	1,198	1,282	421
Growth in comparable retail point sales of LEGO products during comparable periods	26.75%	9.87%	0.75%	7.62%

Notes:

1. Comparable retail points sales refer to revenue generated from our self-operated retail points existing at the end of the relevant financial year/period, which have been operating continuously for at least 24 months immediately prior to the end of that financial year/period. For example, the comparable self-operated retail points for 2015 and 2016 are retail points that were open throughout both 2015 and 2016. Difference between number of comparable retail points and total number of retail points is attributable to retail points opened or closed or under renovation during the periods under comparison. Our calculation of comparable retail points sales information may be different from those adopted by other companies, and our comparable retail points sales information may not be comparable to the comparable retail points sales information reported by other companies.

2. No comparable retail points sales growth is computed for online retail stores as online retail stores are not considered to be physical retail points.

Our profitability is affected in part by sales performance at the existing retail points that we operate. We measure this performance by evaluating same retail points sales, which is commonly used in the retail industry to evaluate sales performance of a retail chain.

The comparable retail points sales growth of our retail shops was 26.1%, 8.1% and 7.8% in FY2014, FY2015 and FY2016, respectively. The comparable retail points sales growth of our consignment counters was 12.5%, 8.0% and (4.2)% in FY2014, FY2015 and FY2016, respectively. Our Directors believe the gradual decrease of the growth rate was primarily affected by the devaluation of RMB against HK$ during FY2014, FY2015 and FY2016 and was also attributable to the increase in number of retail points, including retail shops and consignment counters which is in line with management's strategy in expanding our market presence and increase our overall sales.

Subsequent to FY2016, our comparable retail points sales growth of our retail shops increased from approximately 7.8% for FY2016 to 11.1% for the four months ended 30 April 2017, and our comparable retail points sales growth of our consignment counters increased from (4.2)% for FY2016 to 8.9% for the four months ended 30 April 2017. Our Directors believe such increase was a result of our effort in holding promotional campaigns and our special promotional offers given to members of our membership programme.

The comparable retail points sales growth of the LEGO products in our consignment counters and our retail shops experienced a similar decreasing trend as our general comparable retail points sales growth (as discussed above): the comparable retail points sales growth of the LEGO products in our consignment counters was 24.68%, 9.21%, (2.5)% and 8.24% in FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively, while the comparable retail points sales growth of the LEGO products in our retail shops was 31.18%, 11.19%, 6.06% and 6.79% in FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively.

The gradual decrease of the overall comparable retail points sales growth rate of the LEGO products in FY2014, FY2015 and FY2016 was primarily affected by the devaluation of RMB against HK$ during the period and was also attributable to the increase in number of our retail points. We believe that the increase in comparable retail points sales growth of the LEGO products for the four months ended 30 April 2017 was a result of our effort in holding promotional campaigns and our special promotional offers given to members of our membership programme.

Cost of goods sold

Our cost of goods sold during the Track Record Period consists of the cost of our toy and infant products and allowances (or reversal) for inventories less purchase rebate and discount received. The following table sets forth a breakdown of our cost of goods sold for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Cost of goods sold										
Toy products, cost of	651,784	95.9	757,123	97.5	791,270	96.4	251,764	95.6	273,377	94.9
Infant products, cost of	50,590	7.4	54,605	7.0	70,336	8.6	19,060	7.2	24,743	8.6
Costs of toy and infant products	702,374	103.3	811,728	104.5	861,606	105.0	270,824	102.8	298,120	103.5
Allowance/(reversal) for inventory	5,706	0.8	4,691	0.6	(3,234)	(0.4)	2,479	1.0	4,632	1.6
Less:										
Purchase rebate	(23,365)	(3.4)	(28,589)	(3.7)	(31,879)	(3.9)	(7,965)	(3.0)	(13,310)	(4.6)
Purchase discount	(4,745)	(0.7)	(10,698)	(1.4)	(5,909)	(0.7)	(2,012)	(0.8)	(1,441)	(0.5)
Total	679,970	100.0	777,132	100.0	820,584	100.0	263,326	100.0	288,001	100.0

During the Track Record Period, our cost of goods sold represents the cost of toy and infant products charged to the profit and loss plus inventory provision and allowances, net of purchase rebate and discount received. Our total purchases net of purchase rebate and discount amounted to HK$774.6 million, HK$878.7 million, HK$913.1 million and HK$239.1 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively. The increase of purchase and cost of goods sold was a result of the increase in demand of our toys and infant products.

Provision or reversal of allowance for inventories represents items of inventories, which are slow-moving or obsolete, that have a realisable value lower than its carrying amount, which is reviewed regularly by our management.

The purchase rebate we received from our brand owners is normally determined with reference to relevant distributorship agreements, which are generally calculated with reference to the volume of toy and infant products we ordered within a specified period. The purchase rebate we received from our brand owners increased during the Track Record Period because our purchase from brand owners increases throughout the Track Record Period.

Purchase discount refers to special discount we received from brand owners for the promotion of certain products. After receiving such discounts, we will lower the price of specific products for promotional purpose.

Gross profits

The following table sets forth our gross profit during the Track Record Period:

	For FY2014			For FY2015			For FY2016			For the four months ended 30 April					
										2016			2017		
	Toy products	Infant products	Total	Toy products	Infant products	Total	Toy products	Infant products	Total	Toy products	Infant and other products	Total	Toy products	Infant and other products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,208,706	115,943	1,324,649	1,432,082	129,209	1,561,291	1,475,463	162,911	1,638,374	455,190	43,789	498,979	513,678	53,041	566,719
Cost of goods sold	(627,545)	(52,425)	(679,970)	(721,135)	(55,997)	(777,132)	(750,794)	(69,790)	(820,584)	(242,222)	(21,104)	(263,326)	(266,643)	(21,358)	(288,001)
Gross profit	581,161	63,518	644,679	710,947	73,212	784,159	724,669	93,121	817,790	212,968	22,685	235,653	247,035	31,683	278,718
Gross profit margin (%)	48.1	54.8	48.7	49.6	56.7	50.2	49.1	57.2	49.9	46.8	51.8	47.2	48.1	59.7	49.2

During the Track Record Period, our overall gross profit margin remained relatively stable from approximately 48.7% for FY2014 to approximately 50.2% for FY2015 and 49.9% for FY2016, approximately 47.2% for the four months ended 30 April 2016 and approximately 49.2% for the four months ended 30 April 2017, mainly because the costs of purchasing toy and infant products from brand owners are usually calculated in accordance with the formula stipulated in the relevant distributorship agreements and is generally with reference to the suggested retail price.

During the Track Record Period, the gross profit margin of our toy products remained relatively stable.

The gross profit margin of our infant products fluctuated during the Track Record Period. It increased from 54.8% for FY2014 to 56.7% for FY2015, and further increased to 57.2% for FY2016. The gross profit margin of our infant products increased from approximately 51.8% for the four months ended 30 April 2016 and approximately 59.7% for the four months ended 30 April 2017. The increase in the gross profit margin of our infant products from approximately 54.8% for FY2014 to approximately 56.7% for FY2015 was principally due to the increase in demand of (and hence, revenue from) certain brands of infant products in FY2015 which had a higher profit margin. The increase in the gross profit margin of our infant products from approximately 51.8% for the four months ended 30 April 2016 to approximately 59.7% for the four months ended 30 April 2017 was primarily due to the reversal of inventory allowances for our infant products of about HK$0.4 million during the four months ended 30 April 2017 as a result of our effort in clearing up our inventory during the four months ended 30 April 2017.

Other income

The following table sets forth our other income for each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Other income										
Interest income	388	1.8	660	2.6	429	2.1	94	1.5	153	3.0
Promotion income from brand owners	19,769	91.3	22,059	85.9	15,575	76.4	5,728	88.5	4,760	94.5
Government grants	1,237	5.7	2,675	10.4	2,684	13.2	–	–	–	–
Sundries	257	1.2	285	1.1	1,686	8.3	645	10.0	122	2.5
Total	21,651	100.0	25,679	100.0	20,374	100.0	6,467	100.0	5,035	100.0

Our other income principally represents our promotion income from brand owners.

Interest income was generated from our bank deposits.

Promotion income from brand owners represents subsidies or reimbursement we received from our brand owners for advertising and promoting certain products of the respective brand owners. We generally have to inform the brand owners of our proposal for promotions of their products. After relevant advertisement or promotion activities are held, we are usually required to prepare a report together with supporting invoices and documents of our spending and pictures of the events to our brand owners and/or brand owners for requesting payment of such subsidies or reimbursements to us.

Government grant represents subsidies we received pursuant to the policy of the authorities from local finance authorities as a subsidy on talent training and market expansion.

Sundries primarily represents income from selling accessories and miscellaneous income from our non-principal business activities.

Other gains and losses

The following table sets forth our other gains and losses during the Track Record Period:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April			
							2016		2017	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Other gains and losses										
Net exchange loss	(8,080)	143.0	(7,428)	72.4	(915)	(72.9)	1,550	81.1	(2,245)	95.9
Net gain (loss) on disposal of property, plant and equipment	601	(10.6)	(2)	(0.0)	(13)	(1.0)	–	–	–	–
Reversal of allowance of doubtful debts (allowance for doubtful debts), net	2,014	(35.6)	(2,922)	28.4	2,107	167.8	342	17.9	(688)	29.4
Reversal of reinstatement costs	32	(0.6)	186	(1.8)	98	7.8	29	1.5	613	(26.2)
Others	(217)	3.8	(99)	1.0	(21)	(1.7)	(10)	(0.5)	(22)	0.9
Total	(5,650)	100.0	(10,265)	100.0	1,256	100.0	1,911	100.0	(2,342)	100.0

Our other gains and losses principally represents our (i) net exchange loss, (ii) net gain or loss on disposal of property, plant and equipment, (iii) allowance (or reversal of allowances) of doubtful debts; (iv) donation made to a charity; and (v) reversal of reinstatement costs that we made a provision previously. Our exchange loss mainly arises from the changes in exchange rates between the transaction and the settlement dates of our purchases or sales. Our gain or loss on disposal of property, plant and equipment principally represents the gain arising from disposal of motor vehicle which are set off by the losses from writing off of leasehold improvements.

Reversal (or allowance) for doubtful debt represents the amount of allowance on doubtful debt, in respect of trade receivables that the recoverability or the collectability of which are in doubt, reversed (or charged) to the profit and loss account.

The reversal of reinstatement costs was a reversal of the provision we made in our accounts for reinstating the premises to original condition when returning to our landlord. As certain shop leases have expired, certain reinstatement costs were reversed and charged as our other income in our accounts.

Selling and distribution expenses

The following table sets forth a breakdown of our selling and distribution expenses during the Track Record Period:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		2017	
	HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
Selling and distribution expenses										
Consignment expenses	167,207	12.6	184,682	11.8	204,233	12.5	62,078	12.4	66,164	11.7
Rental expenses and building management fee	84,834	6.4	119,442	7.7	137,575	8.4	40,306	8.1	53,858	9.5
Retail point expenses	26,116	2.0	30,281	1.9	35,099	2.1	10,609	2.1	9,665	1.7
Salaries, other benefits and retirement benefit schemes contributions	130,999	9.9	164,492	10.5	177,744	10.9	52,811	10.6	55,312	9.8
Advertising and promotion costs	29,398	2.2	40,143	2.6	28,306	1.7	4,717	1.0	11,266	2.0
Depreciation	10,428	0.8	15,195	1.0	19,099	1.2	5,827	1.2	8,079	1.4
Transportation cost and declaration	15,917	1.2	22,630	1.4	24,837	1.5	6,552	1.3	8,487	1.5
Other expenses	29,053	2.2	35,359	2.3	21,915	1.3	11,654	2.3	3,556	0.6
Total	493,952	37.3	612,224	39.2	648,808	39.6	194,554	39.0	216,387	38.2

Our selling and distribution expenses during the Track Record Period mainly consist of consignment expenses, rental expenses and building management fee salaries, other benefits and retirement benefit schemes contribution and building management fee and advertising and promotion costs. During the Track Record Period, our selling and distribution expenses increased from approximately HK$494.0 million for FY2014 to approximately HK$648.8 million for FY2016. Our selling and distribution expenses increased from approximately HK$194.6 million for the four months ended 30 April 2016 to approximately HK$216.4 million for the four months ended 30 April 2017.

Consignment expenses mainly represents consignment fees payable to department store which are generally calculated with reference to sales amount of our products sold at such department stores (with a guaranteed minimum concessionaire rate payable). It increased generally during the Track Record Period because of the increase in the number of consignment counters in department stores.

Rental expenses and building management fee principally represents rents and building management fees payable for our self-operated retail points and warehouses. It increased generally during the Track Record Period because of the increase in the number of the retail points.

Retail point expenses mainly represent expenses relating to the cleaning and decoration of our retail points. It increased during the Track Record Period along with the increase in the number of the retail points.

The salaries, other benefits and retirement benefit schemes contribution charged under selling and distribution expenses principally represents salaries and commissions payable to our sales and marketing staff and salaries payable to our staff in the logistics department. It increased during the Track Record Period because of the increase in the number of our retail points (hence greater manpower required) our staff, increase in the commission payable to our staff as a result of the increase in our revenue and the general increase in our staff salaries.

Advertising and promotion costs principally represents our marketing expenses on trade and media activities, some of which may be recoverable from our brand owners. It increased during FY2015 primarily because we held more major promotion activities in FY2015 at the request of one of our brand owners, who agreed to reimburse our costs. Such cost decreased in FY2016 and the four months ended 30 April 2017 because the promotion activities we held for one of our brand owners decreased in FY2016 and the four months ended 30 April 2017.

Transportation cost and declaration expense principally represents the delivery service fee payable to local transportation companies and declaration expense payable to local customs authorities. It increased significantly during FY2015 as our sales volume increase. During FY2016 and the four months ended 30 April 2017, it only had a slight increase due to the increase in sales volume being offset by the decrease in unit cost of transportation fee.

Our other expenses under selling and distribution expenses mainly include office, maintenance and logistics expenses. It increased generally during the Track Record Period because we need more resources to process the increasing number of sales orders.

General and administrative expenses

The following table sets forth a breakdown of our general and administrative expenses during the Track Record Period:

	For FY2014		For FY2015		For FY2016		For the four months ended 30 April 2016		For the four months ended 30 April 2017	
	HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
General and administrative expenses										
Salaries, other benefits and retirement benefit schemes contributions	14,764	1.1	19,373	1.2	21,808	1.3	9,309	1.9	12,187	2.1
Rental expenses and building management fees	9,068	0.7	11,187	0.7	12,105	0.7	3,481	0.7	4,480	0.8
Depreciation	1,793	0.1	1,879	0.1	3,311	0.2	1,075	0.2	1,581	0.3
Office expenses	3,104	0.2	7,392	0.5	5,203	0.3	2,451	0.5	1,966	0.3
Professional fee	587	0.0	1,137	0.1	4,429	0.3	1,019	0.2	2,039	0.4
Travel expense	1,544	0.2	3,090	0.2	3,549	0.2	348	0.1	334	0.1
Bank charge	1,990	0.2	2,451	0.2	3,344	0.2	1,042	0.2	1,643	0.3
Other taxes	1,903	0.1	2,434	0.2	2,738	0.2	870	0.2	691	0.1
Other expenses	4,521	0.4	4,916	0.2	7,956	0.5	1,162	0.2	2,867	0.5
Total	39,274	3.0	53,859	3.4	64,443	3.9	20,757	4.2	27,788	4.9

Our general and administrative expenses during the Track Record Period mainly consist of salaries, other benefits and retirement benefit schemes contribution, rental expenses and building management fees, office expenses and other general and administrative expenses. During the Track Record Period, our administrative expenses increased from approximately HK$39.3 million for FY2014 to approximately HK$64.4 million for FY2016. Our administrative expenses also increased from approximately HK$20.8 million for the four months ended 30 April 2016 to approximately HK$27.8 million for the four months ended 30 April 2017.

Salaries, other benefits and retirement benefit schemes contributions represent our salaries, contributions to social insurance funds, housing provident fund and staff welfare. It increased during the Track Record Period because of the increase in the number of our administrative and management staff and the general increase of our staff salaries.

Rental expenses and building management fee represent our rental expenses and management fee payable for our office premises. It increased throughout the Track Record Period because we rented one more office in Guangzhou in 2015 and another one in Beijing in 2016.

Our office expenses represents expenses relating to the maintenance of our office premises. It increased from approximately HK$3.1 million for FY2014 to approximately HK$7.4 million for FY2015 and decreased to approximately HK$5.2 million for FY2016, primarily because we rented one more office in 2015 and we purchased more office supplies for our new office.

Professional fee principally represents legal and professional fees payable to various professional parties. It increased significantly in FY2016 and the four months ended 30 April 2017 primarily because we hired an accounting consultants in FY2016 and the four months ended 30 April 2017.

Bank charges principally represent our payment for banking services, such as remittance and point-of-sale machines.

Listing expenses

We incurred listing expenses of approximately HK$8.5 million and HK$3.0 million in FY2016 and the four months ended 30 April 2017 respectively, which represents expenses in relation to the preparation for listing.

Income tax expenses

Our income tax expenses represent corporate income tax for the entities comprising our Group, including Hong Kong profits tax and PRC EIT.

	For FY2014	**For FY2015**	**For FY2016**	**For the four months ended 30 April 2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income tax expenses					
Current tax					
Hong Kong Profits Tax	224	1,209	1,613	311	198
PRC withholding taxes	3,726	5,829	4,330	1,270	1,026
PRC EIT	25,712	20,414	19,924	5,495	6,930
	29,662	27,452	25,867	7,076	8,154
(Over) underprovision in prior years/periods Hong Kong Profits Tax	(192)	79	873	–	–
Deferred tax					
Current year/period	(2,663)	(3,183)	918	(91)	504
	26,807	24,348	27,658	6,985	8,658

Our Group is not taxed on consolidation basis. Our Company was incorporated in the Cayman Islands and is accordingly exempted from corporate tax in its country of incorporation.

Our effective tax rate decreased from approximately 21.0% for FY2014 to approximately 18.2% for FY2015, and then increased to 23.5% for FY2016 and to 25.3% for the four months ended 30 April 2017. The reason for the lowered effective tax rate in FY2015 was due to the increased service fee charged by Kidsland Holdings in FY2015 which is subject to a lowered tax rate, as compared to the lowered amounts of service fee charged in FY2014, FY2016 and the four months ended 30 April 2017. The agreed service fee payable by the PRC Subsidiaries to Kidsland Holdings were approximately RMB29.5 million, RMB48.6 million, RMB38.8 million and RMB9.6 million for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively. The service fee was charged based on a fixed percentage of revenue generated from the sale of products of one of our brand owners during a year for the advisory services rendered by Kidsland Holdings. For details, please refer to the section headed "Business – Non Compliance Incidents – Non-compliance in relation to the withholding enterprise income tax" in this prospectus.

Our net profit margin decreased from approximately from 7.6% for FY2014 to 7.0% for FY2015 and further decreased to approximately 5.5% for FY2016 and 4.5% for the four months ended 30 April 2017, which was primarily due to the incurrence of listing expenses, decrease in promotion income from brand owners, increase in consignment expenses and rental expenses and building management fee and increase in salaries, other benefits and retirement benefit scheme contribution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

The following discussion is based on our operating results during the Track Record Period.

Four months ended 30 April 2017 compared with Four months ended 30 April 2016

Revenue

Our revenue increased by approximately HK$67.7 million or 13.6% from approximately HK$499.0 million for the four months ended 30 April 2016 to approximately HK$566.7 million for the four months ended 30 April 2017.

The increase of our revenue was primarily a result of the increase in the number of the retail points, the increase in sales revenue of our existing retail shops, the increase in the number of brands distributed by our Group, the increasing demand for the products from some key brands we work with. The establishment of a LEGO Certified Store in Hong Kong in August 2016 also contributed to some increase of our revenue in 2017. Such increase in revenue was slightly off set by the devaluation of RMB against HK$.

Cost of goods sold

Our cost of goods sold increased by HK$24.7 million or 9.4% from HK$263.3 million for the four months ended 30 April 2016 to HK$288.0 million for the four months ended 30 April 2017, which is basically in-line with the increase in our revenue.

The rate of increase of our cost of goods sold was slightly lower than the rate of increase in our revenue, which was mainly due to (i) the increase of purchase rebate received from our brand owners from approximately HK$8.0 million for the four months ended 30 April 2016 to HK$13.3 million for the four months ended 30 April 2017 which was due to the change of rebate calculating formula with one of our brand owners that starting from 2017, we will receive a higher percentage of rebate for a particular brand of products if a sales target is met, but the general purchase price of that brand has increased; and (ii) the increase of allowance for inventory from a reversal of approximately HK$3.2 million for the four months ended 30 April 2016 to allowance for inventory of HK$4.6 million for the four months ended 30 April 2017 which is a result of our effort in clearing up our inventory during the four months ended 30 April 2017.

The increase in purchase rebate and the reversal of allowance for the four months ended 30 April 2017 as illustrated above were partly offset by the general increase in the purchase price of our costs of toys and infant products.

Gross profit

Our gross profit increased by approximately HK$43.0 million or 18.3% from approximately HK$235.7 million for the four months ended 30 April 2016 to approximately HK$278.7 million for the four months ended 30 April 2017. The increase was principally due to the increase in our revenue as describe above.

Meanwhile, our gross profit margin increased from approximately 47.2% for the four months ended 30 April 2016 to approximately 49.2% for the four months ended 30 April 2017. The gross profit margin for our toy products slightly increased from approximately 46.8% for the four months ended 30 April 2016 to approximately 48.1% for the four months ended 30 April 2017. The gross profit margin for our infant products increased substantially from approximately 51.8% for the four months ended 30 April 2016 and was approximately 59.7% for the four months ended 30 April 2017. The increase in the gross profit margin of our infant products from approximately 51.8% for the four months ended 30 April 2016 to approximately 59.7% for the four months ended 30 April 2016 was primarily due to the reversal of inventory allowances for infant products of about HK$0.4 million during the four months ended 30 April 2016 as a result of our effort in clearing up our inventory during the four months ended 30 April 2017.

Other income

Our other income decreased by approximately HK$1.5 million or 23.1% from approximately HK$6.5 million for the four months ended 30 April 2016 to approximately HK$5.0 million for the four months ended 30 April 2017. The primary reason for the decrease was decrease in our promotion income from brand owners as a result of the reduction of promotion activities organised by us for our brand owners.

Our promotion income from brand owners decreased from approximately HK$5.7 million for the four months ended 30 April 2016 to approximately HK$4.8 million for the four months ended 30 April 2017, which was mainly due to the decrease in the promotion activities organised by us for certain products distributed by our Group.

We were not granted government grants during the four months ended 30 April 2016 and 2017 primarily due to such grants are normally applied and granted by us in the second half of a year.

Other gains and losses

Our other gain decreased by approximately HK$4.2 million from a gain of approximately HK$1.9 million for the four months ended 30 April 2016 to a loss of approximately HK$2.3 million for the four months ended 30 April 2017. The principal reasons for the decrease were the reversal of allowance of doubtful debts on trade receivables.

Our exchange gain decreased from a gain of approximately HK$1.6 million for the four months ended 30 April 2016 to a loss of about HK$2.2 million for the four months ended 30 April 2017, which was due to the fluctuation of exchange rate of RMB and Euros during the four months ended 30 April 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK$21.8 million or 11.2% from approximately HK$194.6 million for the four months ended 30 April 2016 to approximately HK$216.4 million for the four months ended 30 April 2017. The primary reason for the increase was the increase in our consignment expenses, the rental expenses and building management fee and advertising and promotion costs.

Our consignment expenses increased from approximately HK$62.1 million for the four months ended 30 April 2016 to approximately HK$66.2 million for the four months ended 30 April 2017, which was due to the increase in our number of the consignment counters in department stores. Our rental expenses and building management fee increased from approximately HK$40.3 million for the four months ended 30 April 2016 to approximately HK$53.9 million for the four months ended 30 April 2017, which was due to the increase in the number of our self-operated retail points. Our advertising and promotion costs increased from approximately HK$4.7 million for the four months ended 30 April 2016 to approximately HK$11.3 million for the four months ended 30 April 2017 because our group held more advertising and promotion activities during the four months ended 30 April 2017.

General and administrative expenses

Our general and administrative expenses increased by approximately HK$7.0 million or 33.9% from approximately HK$20.8 million for the four months ended 30 April 2016 to approximately HK$27.8 million for the four months ended 30 April 2017. The primary reason for the increase was the increase in our salaries, other benefits and retirement benefits schemes contribution and rental expenses and building management fee.

Our salaries, other benefits and retirement benefit schemes contributions for administrative staff increased from approximately HK$9.3 million for the four months ended 30 April 2016 to approximately HK$12.2 million for the four months ended 30 April 2017, which was due to the increase in the number of our administrative staff and the general increase in salary of our staff in the four months ended 30 April 2017 as compared to the four months ended 30 April 2016. Our rental expenses and building management fee also increased from approximately HK$3.5 million for the four months ended 30 April 2016 to approximately HK$4.5 million for the four months ended 30 April 2017, because the rental rate of our office premises increased during the four months ended 30 April 2017 as compared to a half-year effect in the four months ended 30 April 2016.

Such increase was partly off-set by the decrease in our office expenses from approximately HK$2.5 million for the four months ended 30 April 2016 to approximately HK$2.0 million for the four months ended 30 April 2017, because we purchase more office supplies during 2016 for our new office premises.

Listing expenses

We incurred listing expenses in the sum of HK$3.0 million for the preparation of Listing of our Company during the four months ended 30 April 2017.

Income tax expenses

Our income tax expenses increased by approximately HK$1.7 million or 24.3% from approximately HK$7.0 million for the four months ended 30 April 2016 to approximately HK$8.7 million for the four months ended 30 April 2017. Our effective tax rate remains stable at approximately 25.8% for the four months ended 30 April 2016 and at approximately 25.3% for the four months ended 30 April 2017.

Profits for the year

As a combined result of the factors discussed above, our profit for the year increased by approximately HK$5.5 million or 27.4% from approximately HK$20.1 million for the four months ended 30 April 2016 to approximately HK$25.6 million for the four months ended 30 April 2017. In addition, our net profit margin increased from approximately 4.0% for the four months ended 30 April 2016 to approximately 4.5% for the four months ended 30 April 2017, which was primarily due to the increase in our revenue and our gross profit margin for the four months ended 30 April 2017, which was partly offset by the increased selling and distribution expenses, general and administrative expenses and Listing expenses incurred.

FY2016 compared with FY2015

Revenue

Our revenue increased by approximately HK$77.1 million or 4.9% from approximately HK$1,561.3 million for FY2015 to approximately HK$1,638.4 million for FY2016.

The increase of our revenue was primarily a result of the increase in the number of the retail points, the increase in the number of brands distributed by our Group, the increasing demand for the products from some key brands we work with. The establishment of a LEGO Certified Store in Hong Kong in 2016 also contributed to some increase of our revenue. Such increase in revenue was slightly off set by the devaluation of RMB against HK$.

Cost of goods sold

Our cost of goods sold increased by HK$43.5 million or 5.6% from HK$777.1 million for FY2015 to HK$820.6 million for FY2016, which is basically in-line with the increase in our revenue.

The rate of increase of our cost of goods sold was slightly higher than the rate of increase in of revenue, which was mainly due to the lower gross profit margin of certain new toy brand we started to distribute in 2015, as a result the overall gross profit margin dropped from approximately 49.6% for FY2015 to 49.1% for FY2016.

Gross profit

Our gross profit increased by approximately HK$33.6 million or 4.3% from approximately HK$784.2 million for FY2015 to approximately HK$817.8 million for FY2016. The increase was principally due to the increase in our revenue as describe above.

Meanwhile, our gross profit margin remained relatively stable at approximately 49.9% for FY2016 as compared to approximately 50.2% for FY2015. The gross profit margin for our toy products remained relatively stable at approximately 49.6% for FY2015 and was approximately 49.1% for FY2016. The gross profit margin for our infant products remained relatively stable at approximately 56.7% for FY2015 and was approximately 57.2% for FY2016.

Other income

Our other income decreased by approximately HK$5.3 million or 20.6% from approximately HK$25.7 million for FY2015 to approximately HK$20.4 million for FY2016. The primary reason for the decrease was decrease in our promotion income from brand owners as a result of the reduction of promotion activities organised by us for our brand owners.

Our promotion income from brand owners decreased from approximately HK$22.1 million for FY2015 to approximately HK$15.6 million for FY2016, which was mainly due to the decrease in the promotion activities organised by us for certain products distributed by our Group.

Other gains and losses

Our other losses decreased by approximately HK$11.6 million from a loss of approximately HK$10.3 million for FY2015 to a gain of approximately HK$1.3 million for FY2016. The principal reasons for the decrease were the reversal of allowance of doubtful debts on trade receivables.

Our exchange loss decreased from approximately HK$7.4 million for FY2015 to approximately HK$0.9 million for FY2016, which was due to our exchange loss arising from the devaluation of RMB against HK$ during FY2016 was offset by our exchange gain from the devaluation of EUR against HK$ in FY2016.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK$36.6 million or 6.0% from approximately HK$612.2 million for FY2015 to approximately HK$648.8 million for FY2016. The primary reason for the increase was the increase in our consignment expenses and the salaries, other benefit and retirement benefit schemes contributions.

Our consignment expenses increased from approximately HK$184.7 million for FY2015 to approximately HK$204.2 million for FY2016, which was due to the increase in our number of the consignment counters in department stores. Salaries, other benefits and retirement benefit schemes contribution paid to our staff also increased from approximately HK$164.5 million for FY2015 to approximately HK$177.7 million for FY2016, which was also due to the increase in our commission payable as a result of the increase in our revenue, the general increase of our staff salaries and the expansion of our sales team (which was in line with the increase in the number of our retail points). Our rental expenses and building management fee increased from approximately HK$119.4 million for FY2015 to approximately HK$137.6 million for FY2016, which was due to the increase in the number of our self-operated retail points. Such increase was partly offset by the decrease in the advertising and promotion costs from approximately HK$40.1 million for FY2015 to approximately HK$28.3 million for FY2016 because the promotion activities we held for one of our brand owners decreased in FY2016.

General and administrative expenses

Our general and administrative expenses increased by approximately HK$10.5 million or 19.5% from approximately HK$53.9 million for FY2015 to approximately HK$64.4 million for FY2016. The primary reason for the increase was the increase in our salaries, other benefits and retirement benefits schemes contribution and rental expenses and building management fee.

Our salaries, other benefits and retirement benefit schemes contributions for administrative staff increased from approximately HK$19.4 million for FY2015 to approximately HK$21.8 million for FY2016, which was due to the increase in the number of our administrative staff and the general increase in salary of our staff in FY2016 as compared to FY2015. Our rental expenses and building management fee also increased from approximately HK$11.2 million for FY2015 to approximately HK$12.1 million for FY2016, because we rented a new office since second half of 2015 and the lease had a full-year effect in FY2016 as compared to a half-year effect in FY2015.

Such increase was partly off-set by the decrease in our office expenses from approximately HK$7.4 million for FY2015 to approximately HK$5.2 million for FY2016, because we rented one more office in 2015 and we purchased more office supplies for our new office. This one-off event boosted up the office expense in 2015.

Listing expenses

We incurred listing expenses in the sum of HK$8.5 million for the preparation of Listing of our Company during FY2016.

Income tax expenses

Our income tax expenses increased by approximately HK$3.4 million or 14.0% from approximately HK$24.3 million for FY2015 to approximately HK$27.7 million for FY2016 notwithstanding a decrease in our profit before tax for the same periods. Such increase in income tax expenses arose because our effective tax rate increased from approximately 18.2% for FY2015 and at approximately 23.5% for FY2016, which was primarily due to the decrease in the agreed service fee charged in FY2016 by our Kidsland Holdings which was subject to a lower tax rate.

Profits for the year

As a combined result of the factors discussed above, our profit for the year decreased by approximately HK$19.1 million or 17.5% from approximately HK$109.1 million for FY2015 to approximately HK$90.0 million for FY2016. In addition, our net profit margin decreased from approximately 7.0% for FY2015 to approximately 5.5% for FY2016, which was primarily due to the incurrence of Listing expenses, decrease in promotion income from brand owners, increase in consignment expenses and rental expenses and building management fee, increase in salaries, other benefits and retirement benefit schemes contribution and the factors mentioned above.

FY2015 compared with FY2014

Revenue

Our revenue increased by approximately HK$236.7 million or 17.9% from approximately HK$1,324.6 million for FY2014 to approximately HK$1,561.3 million for FY2015.

The increase of our revenue was primarily a result of the increase in the number of the retail points, our effort in promoting our products, the introduction of new brands and types of products distributed by our Group and the increasing demand for the products from key brands that we work with. The increase in our revenue was also attributable to the increase in demand of the products of one of our brand owners that supplies radio control airplane and robots, and the demand of such products was particularly high due to the popularity and trend of such products in the market.

The increase in revenue was slightly set off by the devaluation of RMB against HK$.

Cost of goods sold

Our cost of goods sold increased by HK$97.1 million or 14.3% from HK$680.0 million for FY2014 to HK$777.1 million for FY2015.

The rate of increase of our cost of sales was lower than the rate of increase in of revenue, mainly due to the slight increase of the gross profit margin of our toy products from approximately 48.1% for FY2014 to approximately 49.6% for FY2015 and slight increase of the gross profit margin of our infant products from approximately 54.8% for FY2014 to approximately 56.7% for FY2015.

Gross profits

Our gross profit increased by approximately HK$139.5 million or 21.6% from approximately HK$644.7 million for FY2014 to approximately HK$784.2 million for FY2015. The increase was due to the increase in our revenue as explained above.

Our gross profit margin slightly increased from approximately 48.7% for FY2014 to approximately 50.2% for FY2015. The increase in the gross profit margin of our toys and infant products was due to the increase in demand of certain brands of products in 2015 which had a higher profit margin.

Other income

Our other income increased by approximately HK$4.0 million or 18.4% from approximately HK$21.7 million for FY2014 to approximately HK$25.7 million for FY2015. The primary reason for the increase was the increase in our promotion income from brand owners and the government grants.

Our promotion income from brand owners rose from approximately HK$19.8 million for FY2014 to approximately HK$22.1 million for FY2015, which was due to the increase in the major promotion activities organised by us for certain products distributed by our Group for our brand owners.

Other gains and losses

Our other losses increased by approximately HK$4.6 million or 80.7% from a loss of approximately HK$5.7 million for FY2015 to a loss of approximately HK$10.3 million for FY2016. The primary reason for the increase was the decrease in allowance for doubtful debts, which was otherwise recorded as a reversal of allowance of doubtful debts in FY2014.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK$118.2 million or 23.9% from approximately HK$494.0 million for FY2014 to approximately HK$612.2 million for FY2015. The primary reason for the increase was the increase in our consignment expenses, salaries, other benefits and retirement benefit schemes contributions, rental expenses and building management fee and advertising and promotion costs.

Our consignment expenses increased from approximately HK$167.2 million for FY2014 to approximately HK$184.7 million for FY2015, mainly due to the increase in our number and consignment rates of the consignment counters in department stores. Our salaries, other benefits and retirement benefit scheme contribution paid to our staff also increased from approximately HK$131.0 million for FY2014 to approximately HK$164.5 million for FY2015, which was due to the increase in the number of our staff, the increase in commissions payable to our staff and the general increase of our staff salaries. Our rental expenses and building management fee increased from approximately HK$84.8 million for FY2014 to approximately HK$119.4 million for FY2015, which was due to the increase in the number of our self-operated retail points. Our advertising and promotion costs increased from approximately HK$29.4 million for FY2014 to approximately HK$40.1 million for FY2015 because we held more promotion events in 2015. The increase in our transportation cost and customs declaration from approximately HK$15.9 million for FY2014 to approximately HK$22.6 million for FY2015 was due to the increase in our sales volume.

General and administrative expenses

Our general and administrative expenses increased by approximately HK$14.6 million or 37.2% from approximately HK$39.3 million for FY2014 to approximately HK$53.9 million for FY2015, mainly because of the increase in our salaries, other benefit and retirement benefit scheme contribution to administrative staff, rental expenses and building management fee, office expenses, bank charges and other expenses.

Our salaries, other benefits and retirement benefit schemes contribution for administrative staff increased from approximately HK$14.8 million for FY2014 to approximately HK$19.4 million for FY2015, which was attributable to the increase in the number of our administrative staff and the general increase in salary of our staff. Our rental expenses and building management fee also increased from approximately HK$9.1 million for FY2014 to approximately HK$11.2 million for FY2015, because we rented one more office in 2015. Our office expenses increased from approximately HK$3.1 million for FY2014 to approximately HK$7.4 million for FY2015, because we rented one more office in 2015 and we acquired more office supplies for our new office.

Income tax expenses

Our income tax expenses decreased by approximately HK$2.5 million or 9.3% from approximately HK$26.8 million for FY2014 to approximately HK$24.3 million for FY2015. The decrease was primarily attributable to the decrease in our assessable profit. Our effective tax rate decreased from approximately 21.0% for FY2014 to approximately 18.2% for FY2015 because of the increase in the agreed service fee charged in FY2015 by our Kidsland Holdings which is subject to a lower tax rate.

Profits for the year

As a combined result of the factors discussed above, our profit for the year increased by approximately HK$8.5 million or 8.4% from approximately HK$100.6 million for FY2014 to approximately HK$109.1 million in 2015. In addition, our net profit margin decreased slightly from approximately 7.6% for FY2014 to approximately 7.0% for FY2015, which was due to the proportionate increase of increase in rental expenses and building management fee and increase in salaries, other benefits and retirement benefit schemes contribution, which was partly offset by the increase in gross profit margin.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our finance department closely monitors our cash flow position to ensure that we have sufficient working capital available to meet the operational needs. Our finance department takes into account our loans to customers, cash at bank and on hand, repayment of bank borrowings, administrative and capital expenditure.

Cash flow

During the Track Record Period, our Group mainly finances our operation from capital contributed by Shareholders and cash flow from operating activities. Following the completion of Global Offering, we expect that we will also finance our operation and capital expenditure through net proceeds from the Global Offering.

The following table sets out selected cash flow data from our Group's combined cash flow statements for the period indicated.

	FY2014	FY2015	FY2016	For the four months ended 30 April 2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net operating cash inflow before movements in working capital	148,261	159,696	133,935	32,407	50,138
Changes in working capital	(74,670)	(147,285)	(52,255)	(34,181)	(85,921)
Cash generated from/(used in) operations	73,591	12,411	81,680	(1,774)	(35,783)
Income tax paid	(19,537)	(30,169)	(20,519)	(5,325)	(23,246)
Net cash from/(used in) operating activities	54,054	(17,758)	61,161	(7,099)	(59,029)
Net cash used in investing activities	(17,516)	(23,104)	(31,594)	(6,886)	(7,366)
Net cash from/(used in) financing activities	47,453	16,062	(1,426)	(165)	32,545
Net increase/(decrease) in cash and cash equivalents	83,991	(24,800)	28,141	(14,150)	(33,850)
Cash and cash equivalents at beginning of year/period	107,830	191,391	156,377	156,377	173,365
Effect of foreign exchange rate changes	(430)	(10,214)	(11,153)	(822)	(1,701)
Cash and cash equivalents at end of year/period	191,391	156,377	173,365	141,405	137,814

Cash flow generated from/(used in) operating activities

Our net cash generated from operating activities primarily consists of profit before taxation adjusted for non-cash items, such as allowance/(reversal of allowance) for inventories, allowance/(reversal of allowance) for doubtful debt, depreciation of property, plant and equipment, interest income, gain or loss on disposal of property, plant and equipment and net exchange gain or loss. We derive our cash inflows principally from sales of toy and infant products during the Track Record Period.

Our net cash generated from/(used in) operating activities for FY2014, FY2015 and FY2016 and the four months ended 30 April 2016 and 2017 was approximately HK$54.1 million, HK$(17.8) million, HK$61.2 million, HK$(7.1) million and HK$(59.0) million respectively. Our cash flow generated from operating activities are further analysed below.

For the four months ended 30 April 2017

Our net cash used in operating activities was approximately HK$59.0 million for the four months ended 30 April 2017. This was primarily due to the cash inflow of approximately HK$50.1 million from operating activities before the movement in working capital of approximately HK$(85.9) million and cash payment for PRC income tax paid of approximately HK$23.2 million. Our net cash inflow before movement in working capital of approximately HK$50.1 million was primarily attributable to our profit before income tax of HK$34.2 million, and was adjusted by non-cash items, such as allowance/(reversal of allowance) for inventories, allowance/(reversal of allowance) for doubtful debt, depreciation of property, plant and equipment, interest income and gain or loss on disposal of property, plant and equipment, totalling approximately HK$15.9 million.

Effect of movement in working capital mainly comprise net cash outflow from: (i) the decrease in trade payables of approximately HK$81.2 million which was primarily due to we purchased fewer inventories during the four months ended 30 April 2017 as we implemented inventory control (e.g. selling slow-moving inventories at a discount and implementing a stricter procurement plan – please see the section headed "Business – Logistics and Inventory Management – Inventory control" for further details) during the four months ended 30 April 2017 and that we maintained a relatively lower inventory level during the first half of a year as we expected a relatively lower sales volume during the first half of a year; (ii) the decrease in other payables and accruals of approximately HK$30.1 million which was principally due to the decrease in our deposits received from our customers from approximately HK$36.1 million as at 31 December 2016 to approximately HK$24.2 million as at 30 April 2017 because of the relatively lower sales orders received from our customers in the first half of a year and the decrease in our accrued expenses from HK$39.0 million as at 31 December 2016 to approximately HK$24.1 million as at 30 April 2017 as we opened more shops during the second half of 2016 as compared with the first half of 2017 so we incurred more renovation works and, as a result, accruals were made; (iii) the increase in rental deposits of HK$3.5 million; and (iv) the increase in amounts due to related parties of approximately HK$2.5 million. Such cash outflow was set off by the net cash inflow from (i) net decrease in our inventories of approximately HK$21.9 million; (ii) from the decrease in our trade receivables of approximately HK$21.8 million; and (iii) the increase in our other receivables, deposits and prepayments of approximately HK$12.3 million.

We also paid PRC income tax of approximately HK$23.2 million during the four months ended 30 April 2017.

Our net cash used in operating activities for the four months ended 30 April 2017 was primarily a result of the decrease in the trade payables of about HK$81.2 million as explained above during the four months ended 30 April 2017, while our cash inflow arising from the decrease in our inventories was just HK$21.9 million; and the decrease in other payables and accruals as explained above.

For FY2016

Our net cash generated from operating activities was approximately HK$61.2 million for FY2016. This was primarily due to the cash inflow of approximately HK$133.9 million from operating activities before the movement in working capital of approximately HK$52.3 million and cash payment for PRC and HK income tax paid of approximately HK$20.5 million. Our net cash inflow before movement in working capital of approximately HK$133.9 million was primarily attributable to our profit before income tax of HK$117.6 million, and was adjusted by non-cash items, such as allowance/(reversal of allowance) for inventories, allowance/(reversal of allowance) for doubtful debt, depreciation of property, plant and equipment, interest income and gain or loss on disposal of property, plant and equipment, totalling approximately HK$16.3 million.

Effect of movement in working capital mainly comprise net cash outflow from: (i) net increase in our inventories of approximately HK$93.1 million; (ii) from the increase in our trade receivables of approximately HK$31.6 million; and (iii) the increase in our other receivables, deposits and prepayments of approximately HK$23.1 million. Such cash outflow was set off by the net cash inflow from (i) the increase in trade payables of approximately HK$50.6 million; (ii) the increase in other payables and accruals of approximately HK$34.8 million; (iii) the increase in amounts due to related parties of approximately HK$9.0 million; and (iv) the decrease in rental deposits of HK$1.2 million.

We also paid Hong Kong and PRC income tax of approximately HK$20.5 million during FY2016.

For FY2015

Our net cash used in operating activities was approximately HK$17.8 million for FY2015. This was primarily due to the cash inflow of approximately HK$159.7 million from operating activities before the movement in working capital of approximately HK$147.3 million and cash payment for PRC and HK income tax paid of approximately HK$30.2 million. Our net cash inflow before movement in working capital of approximately HK$159.7 million was primarily attributable to our profit before income tax of HK$133.5 million, and was adjusted by non-cash items, such as allowance/(reversal of allowance) for inventories, allowance/(reversal of allowance) for doubtful debt, depreciation of property, plant and equipment, interest income, gain or loss on disposal of property, plant and equipment and net exchange gain or loss, totalling approximately HK$26.2 million.

Effect of movement in working capital mainly comprise net cash outflow from: (i) net increase in our inventories of approximately HK$121.0 million which was primarily due to the increase in the number of our retail points and the brands of products that we distribute which require more base stocks of different brands to be stored in our existing and newly established retail points. The increase was also due to that, the brand owners of those new brands normally require purchase and maintenance of certain level of inventories; (ii) the decrease in amounts due to related parties of HK$13.0 million; (iii) the increase in our other receivables, deposits and prepayments of approximately HK$12.8 million; (iv) the increase in trade receivables of approximately HK$13.6 million; and (v) the increase in rental deposits of approximately HK$6.9 million. Such cash outflow was set off by the net cash inflow from the (i) increase in our trade payables of approximately HK$9.8 million and increase in other payables and accruals of approximately HK$10.1 million.

We also paid Hong Kong and PRC income tax of approximately HK$30.2 million during FY2015.

Our net cash used in operating activities for FY2015 was primarily a result of the increase in our inventories as at 31 December 2015 as compared with our inventory level as at 31 December 2014 (as explained above) while our trade payables as compared with our remain relatively stable as at 31 December 2014 and 2015.

For FY2014

Our net cash generated from operating activities was approximately HK$73.6 million for FY2014. This was primarily due to the cash inflow of approximately HK$148.3 million from operating activities before the movement in working capital of approximately HK$74.7 million and cash payment for PRC and HK income tax paid of approximately HK$19.5 million. Our net cash inflow before movement in working capital of approximately HK$148.3 million was primarily attributable to our profit before income tax of HK$127.5 million, and was adjusted by non-cash items, such as allowance for inventories, reversal of allowance for doubtful debt, depreciation of property, plant and equipment, interest income, gain or loss on disposal of property, plant and equipment and net exchange gain or loss, totalling approximately HK$20.8 million.

Effect of movement in working capital mainly comprise net cash outflow from: (i) net increase in our inventories of approximately HK$105.1 million; (ii) the decrease in amounts due to related parties of approximately HK$61.8 million; (iii) the increase in trade receivable of approximately HK$15.1 million; (iv) the increase in our rental deposit of HK$5.4 million; and (v) the increase in our other receivables, deposits and prepayments of approximately HK$13.7 million. Such cash outflow was set off by the net cash inflow from (i) the increase in our trade payables of approximately HK$92.5 million; and (ii) the increase in other payables and accruals of approximately HK$33.8 million.

We also paid Hong Kong and PRC income tax of approximately HK$19.5 million during FY2014.

Cash outflow from investing activities

Our net cash outflow from investing activities primarily consists of purchases of property, plant and equipment.

Our cash used in investing activities for the four months ended 30 April 2017 of approximately HK$7.4 million represents our purchases of property, plant and equipment of approximately HK$7.6 million, and was partly offset by interest received and repayment from a related party of approximately HK$0.1 million and HK$0.1 million, respectively. The property, plant and equipment acquired were primarily used as decoration and fixtures of our retail points.

Our cash used in investing activities for FY2016 of approximately HK$31.6 million represents our purchases of property, plant and equipment of approximately HK$32.0 million, and was partly offset by interest received of approximately HK$0.4 million. The property, plant and equipment acquired were primarily used as decoration and fixtures of our retail points.

Our cash used in investing activities for FY2015 of approximately HK$23.1 million represents our purchases of property, plant and equipment of approximately HK$23.8 million, which mainly comprise the addition of leasehold improvements, and was partly offset by interest received of approximately HK$0.7 million during the year. The property, plant and equipment acquired were mainly used as decoration and fixtures of our retail points.

Our cash used in investing activities for FY2014 of approximately HK$17.5 million represents our purchases of property, plant and equipment of approximately HK$18.9 million, which mainly comprise the addition of leasehold improvements. It was partly offset by the interest received of approximately HK$0.4 million and the proceeds from disposal of property, plant and equipment of approximately HK$1.0 million during the year.

Cash flow from/(used in) financing activities

Out net cash from or used in financing activities consist of advances from a related party and capital contribution by non-controlling interest.

Our cash used in financing activities for the four months ended 30 April 2017 of approximately HK$32.5 million represents repayments to a related party of approximately HK$2.2 million and advances from a related party of approximately HK$34.7 million.

Our cash used in financing activities for FY2016 of approximately HK$1.4 million represents repayments to a related party of approximately HK$1.6 million and advances from a related party of approximately HK$0.2 million.

Our cash from financing activities for FY2015 was of approximately HK$16.1 million represents repayments to a related party of approximately HK$5.0 million and advances from a related party of approximately HK$21.1 million.

Our cash from financing activities for FY2014 of approximately HK$47.5 million represents repayments to a related party of approximately HK$3.3 million, advances from our related parties of approximately HK$38.8 million and the advance from non-controlling interest of HK$12.0 million.

CAPITAL EXPENDITURE

During the Track Record Period, our capital expenditures principally represent additions to leasehold improvements, purchase of furniture and equipment and motor vehicles for our daily operational use and office premises. The following table sets out the amount of our capital expenditures during the Track Record Period:

	For FY2014	For FY2015	For FY2016	For the four months ended 30 April 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Leasehold improvements	19,739	22,373	34,315	6,816
Furniture & equipment	2,605	5,553	3,794	1,145
Motor vehicles	461	–	–	–
Total	22,805	27,926	38,109	7,961

During the Track Record Period, our additions in leasehold improvements and furniture and equipments were primarily used to decorate our consignment counters and retail points. Our capital expenditure increased throughout the Track Record Period along with the increase in number of our retail points.

We expect to meet the future capital expenditure requirements through our available cash and cash equivalents, internal resources and/or bank borrowings and the expected net proceeds from the Global Offering. The following table sets out the amount of our estimate of future capital expenditures for the years ending 31 December 2017 and 2018:

	For the year ending 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Estimated capital expenditure		
Leasehold improvements	61,867	107,742
Furniture & equipment	3,984	3,984
Motor vehicles	806	1,267
Total	66,657	112,993

SELECTED ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	26,995	35,839	48,802	47,535
Rental deposits	13,960	18,995	16,159	19,781
Deferred tax assets	9,759	12,247	10,589	10,191
Total non-current assets	50,714	67,081	75,550	77,507
Current assets				
Inventories	356,847	441,928	506,059	482,655
Trade receivables	115,520	116,137	141,039	119,328
Other receivables, deposits and prepayments	43,136	52,693	71,423	84,199
Amount due from a related party	114	107	101	–
Bank balances and cash	191,391	156,377	173,365	137,814
Total current assets	707,008	767,242	891,987	823,996
Total assets	757,722	834,323	967,537	901,503
Current liabilities				
Trade payables	221,269	215,851	254,759	179,014
Other payables and accruals	103,322	105,840	142,835	117,498
Amounts due to related parties	195,465	187,025	182,340	125,674
Current tax liabilities	14,795	11,454	16,588	2,508
Total current liabilities	534,851	520,170	596,522	424,694
Net current assets	172,157	247,072	295,465	399,302
Total assets less current liabilities	222,871	314,153	371,015	476,809
Non-current liability				
Provision for reinstatement costs	6,626	11,315	8,574	7,739
Net assets	216,245	302,838	362,441	469,070

Property, plant and equipment

Property, plant and equipment mainly represent leasehold improvement, furniture and fixtures in our offices and retail points and motor vehicles. As at 31 December 2014, 2015 and 2016 and 30 April 2017, property, plant and equipment amounted to approximately HK$27.0 million, HK$35.8 million, HK$48.8 million and HK$47.5 million, respectively.

The increase in property, plant and equipment from approximately HK$27.0 million as at 31 December 2014 to approximately HK$35.8 million as at 31 December 2015 was mainly due to increase in the number of our retail points (including both retail shops and consignment counters).

The increase in property, plant and equipment from approximately HK$35.8 million as at 31 December 2015 to approximately HK$48.8 million as at 31 December 2016 was mainly due to increase in the number of our retail points (including retail shops and consignment counters).

The increase in property, plant and equipment from approximately HK$48.8 million as at 31 December 2016 to approximately HK$47.5 million as at 30 April 2017 was mainly due to increase in the number of our retail points (including retail shops and consignment counters).

The value of our property, plant and equipment as at each of our financial year end dates was calculated at historical cost less depreciation. In general, depreciation charge of our leasehold improvements are charged over a period of two to three years with reference to the length of relevant leases or concessionaire agreements. For details of our capital expenditure during the Track Record Period, please refer to the paragraph headed "Capital expenditure" in this section.

Rental deposits

Our rental deposits mainly represent our deposits paid to landlords in respect of leases of our office and retail points which are not refundable within 12 months. As at 31 December 2014, 2015 and 2016 and 30 April 2017, rental deposits amounted to approximately HK$14.0 million, HK$19.0 million, HK$16.2 million and HK$19.8 million, respectively. Current portion of the rental deposits which are refundable within 12 months are classified as other receivables, deposits and prepayments. For details, please refer to paragraph headed "other receivables, deposits and prepayments" in this section.

The increase in rental deposits from approximately HK$14.0 million as at 31 December 2014 to approximately HK$19.0 million as at 31 December 2015 was mainly due to the increase in the number of the retail points.

The decrease in rental deposits from approximately HK$19.0 million as at 31 December 2015 to approximately HK$16.2 million as at 31 December 2016 was mainly due to a larger portion of our rental deposits are classified as other receivables, deposits and prepayments. The deposit in other receivables, deposits and prepayments, which comprise principally of rental deposits which increased from approximately HK$23.2 million as at 31 December 2015 to approximately HK$28.7 million as at 31 December 2016. The current and non-current portions of rental deposits, in aggregate, increased from approximately HK$42.2 million as at 31 December 2015 to approximately HK$44.9 million as at 31 December 2016.

The increase in rental deposits from approximately HK$16.2 million as at 31 December 2016 to approximately HK$19.8 million as at 30 April 2017 was mainly due to the increase in the number of the retail points.

Deferred tax assets

Deferred tax assets represent principally the differences between the carrying amount and tax base of our assets and liabilities, and carried forward tax losses and credits. The balance of our deferred tax assets are primarily affected by the accelerated tax depreciation, unrealized profit on inventory, provision for doubtful debts, allowance for inventories and tax losses.

During the Track Record Period, one of our subsidiaries in Hong Kong and one of our subsidiaries in the PRC were engaged in the procurement of toy and infant products from some brand owners, and they sold such products to our other subsidiaries in the PRC on a cost-plus basis. These two subsidiaries recognised profits in their own financial statements, and profits tax were calculated and paid by them (if fallen due) on the profits recognised in such financial statements. However, at the end of each reporting period, there were inventories which remained unsold and recorded in the financial statements of the said PRC subsidiaries at a cost which included the margin charged by these two subsidiaries. As a result, we reduced the value of these inventories (being the unrealised gain) to its cost in our combined financial statements by about HK$9.9 million, HK$14.9 million, HK$15.6 million and HK$15.4 million as at each of the three years ended 31 December 2016 and at 30 April 2017, respectively. The relating tax paid on the unrealised profits was recognised in our Group's financial statements as deferred tax assets. For each of the three years ended 31 December 2014, 2015 and 2016 and at 30 April 2017, we recognised deferred tax assets of about HK$1.7 million, HK$1.3 million, HK$0.4 million and HK$0.07 million, respectively, for such unrealised profit on inventory in our Group's financial statements.

Inventories

The following table sets forth our inventory positions as at the end of the reporting periods indicated.

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Merchandise stock for resale	356,847	441,928	506,059	482,655

Our inventories comprise finished goods of toy and infant products.

Our inventories increased by approximately HK$85.1 million from approximately HK$356.8 million as at 31 December 2014 to approximately HK$441.9 million as at 31 December 2015, which was primarily due to the increase in the number of our retail points and the brands of products that we distribute which require more base stocks of different brands to be stored in our existing and newly established retail points. The increase was also due to that, the brand owners of those new brands normally require purchase and maintenance of certain level of inventories.

Our inventories increased by approximately HK$64.2 million from approximately HK$441.9 million as at 31 December 2015 to approximately HK$506.1 million as at 31 December 2016, which was primarily due to the increase in our retail points and the number of brands of products that we distribute for the reasons explained above. The increase of our inventories during the Track Record Period was also a result of the preparation for the opening of new retail points and the accelerating increase in purchases, in order to avoid an expected increase in the purchase price of toy products from certain brand owners in FY2017 offered by brand owners.

Our inventories decreased by approximately HK$23.4 million from approximately HK$506.1 million as at 31 December 2016 to approximately HK$482.7 million as at 30 April 2017, which was primarily due to we implemented inventory control during the four months ended 30 April 2017 and we expected a relatively lower sales volume during the first half of a year, which allowed us to maintain a relatively lower inventory level during the first half of a year.

The following table sets forth our inventory turnover days as at the end of the reporting periods indicated.

	For FY2014	For FY2015	For FY2016	For the four months ended 30 April 2017
Inventory turnover (days) *(Note)*	166	188	211	206

Note: The number of inventory turnover days is calculated based on the average inventory of our Group (sum of opening and closing balances of inventory of respective years and then divided by two) divided by cost of goods sold of the respective years and multiplied by 365 days and 120 days in the year/period, respectively.

Our inventory turnover days increased from 166 days for FY2014 to 188 days for FY2015, and further increased to 211 days for FY2016 and subsequently decreased to 206 days for the four months ended 30 April 2017.

The increase of our inventory turnover days for FY2014, FY2015 and FY2016 was principally a result of the increase in the number of our retail points and consignment counters which have relatively longer inventory turnover days as we are required to maintain an amount of base stocks on our shelves to showcase our products, the increase in number of brands of products that new brands normally have relatively longer inventory turnover days and the fulfilment of purchase targets set up by certain brands owners. The increase was also a result of the increase in the percentage of sales from self-operated retail channels which generally has a higher inventory turnover days.

Subsequent to FY2016, our inventory turnover days decreased from 211 days for FY2016 to 206 days for the four months ended 30 April 2017, it was primarily due to the decrease in our inventory level from approximately HK$506.1 million as at 31 December 2016 to approximately HK$482.7 million as at 30 April 2017 as we implemented inventory control during the four months ended 30 April 2017 and we expected a relatively lower sales volume during the first half of a year, which allowed us to maintain a relatively lower inventory level during the first half of a year.

The table below sets out the ageing analysis of our inventory at the balance sheet dates indicated:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ageing analysis:				
Within 1 year	312,915	331,094	414,631	381,654
More than 1 year but less than 2 years	38,862	76,802	60,266	64,581
Over 2 years	5,070	34,032	31,162	36,420
Total	356,847	441,928	506,059	482,655

The inventory aged over two years increased from approximately HK$5.1 million as at 31 December 2014 to HK$34.0 million as at 31 December 2015. The inventories which aged over one year but less than two years increased from approximately HK$38.9 million as at 31 December 2014 to approximately HK$76.8 million as at 31 December 2015, which was primarily due to the building-up of certain slow moving inventories.

The inventory aged over two years decreased from approximately HK$34.0 million as at 31 December 2015 to HK$31.2 million as at 31 December 2016. The inventories which aged over one year but less than two years decreased from approximately HK$76.8 million as at 31 December 2015 to approximately HK$60.3 million as at 31 December 2016. The decreases of our inventories aged over one year was a result of our success in clearing up our aged inventories.

The inventory aged within one year decreased from approximately HK$414.6 million as at 31 December 2016 to approximately HK$381.7 million as at 30 April 2017 was our success in implementing inventory control during the four months ended 30 April 2017 and we maintained a relatively lower inventory level during the first half of a year as we expected a relatively lower sales volume during the first half of a year.

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. We carry out an inventory review regularly and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the carrying amount, impairment may arise. In order to better control the aged inventories in the future, we may consider promoting the sales of slow moving products by offering them to our customers at a discount. We consider that our toy products and infant products do not obsolete easily, as toys and infant products do not generally have an expiry date and that the trend of playing or using certain types of toys or infant products normally last for more than one year. We carried out inventory review regularly on the recoverability of our inventory. For FY2014 and FY2015 and the four months ended 30 April 2017, we charged an allowance for inventory of approximately HK$5.7 million, HK$4.7 million and HK$4.6 million, respectively, and for FY2016, we reversed the provision of approximately HK$3.2 million. In this respect, our Directors believe that no additional provision is required for inventories aged over one year.

As at the Latest Practicable Date, approximately HK$279.5 million (or 57.9%) out of the HK$482.7 million inventories as at 30 April 2017 had been subsequently sold. The relatively low subsequent usage of inventories was due to the relatively longer procurement cycles of products from certain brands of toy and infant products which we usually purchase in a larger order each time, and therefore the inventories being stocked up as at the Latest Practicable Date are primarily products from those brands of toy and infant products. We are not aware of any material change to our procurement cycle subsequent to the Track Record Period. We carried out regular inventory review on the recoverability of our inventories, and had made adequate allowance for inventories on any items that we identified having net realisable value lower than their cost. Allowance for inventories (reversal of allowance for inventories) for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017 was approximately HK$5.7 million, HK$4.7 million, HK$(3.2) million and HK$4.6 million, respectively. Since there was continuous subsequent usage of our inventories after the Track Record Period, and we are not aware of any material downward trend on the net realisable value of our inventories during our recent inventory review, our Directors believe that the allowance for the inventories as at 30 April 2017 was sufficient.

Trade receivables

Trade receivables as at the respective year end during the Track Record Period principally represented the outstanding amounts receivable by us from our customers less any allowance for doubtful debts. The following table sets forth analysis of our trade receivables as at the end of the reporting periods indicated:

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	117,049	120,383	142,997	121,995
Less: Allowance for doubtful debts	(1,529)	(4,246)	(1,958)	(2,667)
	115,520	116,137	141,039	119,328

We generally require most of our wholesale customers to prepay us before delivery of our products. We adopt a comparatively prudent credit policy in order to maintain a sound financial position and control our credit risk in early stage of development. In general, (i) our sales conducted at self-operated retail points in the PRC are transacted either by cash or credit cards which has a settlement period of within 30 days from transaction date; (ii) for sales made at consignment counters at department stores, the department stores normally collect payments from our end-customers and then pay the balance to our Group after deducting the commission payable to the department stores. The credit period granted to department stores ranges from 30 days to 180 days; (iii) for sales to our hypermarket and supermarket chains, our Group generally allows a credit period ranging from 30 to 60 days; (iv) for sales to our distributors, we normally require them to pay us in advance; and (v) for sale to our online key accounts customers and hypermarkets, we normally grant a credit period of 15 to 60 days.

Our trade receivables remained stable at approximately HK$115.5 million as at 31 December 2014 and was approximately HK$116.1 million as at 31 December 2015.

Our trade receivables increased significantly from approximately HK$116.1 million as at 31 December 2015 to approximately HK$141.0 million as at 31 December 2016, primarily due to the increase in trade receivables from online key accounts and supermarket and hypermarket chains which was a result of the increase in sales from these channels near the year end.

Our trade receivables decreased significantly from approximately HK$141.0 million as at 31 December 2016 to approximately HK$119.3 million as at 30 April 2017, primarily due to the relatively lower sales revenue in March and April 2017 as compared to that in November and December 2016, as November and December are normally our high season.

Our allowance for doubtful debts increased from approximately HK$1.5 million as at 31 December 2014 to approximately HK$4.2 million as at 31 December 2015 because we had to perform account reconciliation with one of our key wholesale customers in 2015 in respect of the cost of certain promotion events and that another wholesale customer failed to settle our bills on time. Such reconciliations were completed in 2016 and as a result, our allowance for doubtful debt decreased to HK$2.0 million as at 31 December 2016. Our allowances for doubtful debt further increased to approximately HK$2.7 million because there are certain long outstanding accounts receivables as at 30 April 2017.

The following table sets forth our turnover of our trade receivables for the periods indicated:

	FY2014	**FY2015**	**FY2016**	**For the four months ended 30 April 2017**
Average trade receivables turnover (days) *(Note)*	30	27	29	28

Note: The number of average trade receivables turnover days is calculated based on the average trade receivables of our Group (sum of opening and closing balances of trade receivables of respective years/period and then divided by two) divided by turnover of the respective years and multiplied by 365 days.

Our average trade receivables turnover days remained stable at approximately 30 days, 27 days, 29 days and 28 days for each of FY2014, FY2015 and FY2016 and the four months ended 30 April 2017. It generally falls within the general credit period we granted to our wholesale customers.

The following table sets forth a summary of the average age of our trade receivables (based on the transaction date) as at the end of the reporting period indicated.

	As at 31 December			**As at 30 April**
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ageing analysis:				
Within 30 days	96,081	94,034	108,759	84,269
31 to 60 days	10,488	9,461	16,673	17,416
61 to 90 days	3,347	4,739	8,066	9,854
91 to 180 days	4,470	5,766	5,473	5,900
181 to 365 days	1,127	1,702	988	1,889
Over 365 days	7	435	1,080	–
Total	115,520	116,137	141,039	119,328

The significant increase of our trade receivables aged from 31 – 90 days as at 31 December 2016 was a result of our higher sales to our a online key account and several hypermarkets/supermarket chains which had a credit period of approximately 15 to 60 days.

Our trade receivables aged within 30 days decreased to approximately HK$84.3 million as at 30 April 2017 because March and April are low season, and therefore our monthly sales in these two months are relatively smaller than our sales in November and December 2016.

The following table sets forth a summary of the average age of our trade receivables (based on the transaction date) which are past due but not impaired as at the end of the reporting period indicated.

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	7,394	9,502	9,213	11,711
31 to 60 days	8,571	8,317	13,902	12,859
61 to 90 days	2,822	4,204	7,448	9,267
91 to 180 days	4,470	5,664	5,419	5,839
181 to 365 days	1,127	1,702	988	1,889
Over 365 days	7	435	1,080	–
Total	24,391	29,824	38,050	41,565

Our provision for doubtful debts was HK$1.5 million, HK$4.2 million, HK$2.0 million and HK$2.7 million for each of the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2017. We normally assess the recoverability of our trade receivables by considering the outstanding time of relevant trade receivables and the financial worthiness of individual wholesale customers. For details please refer to note 5 of Appendix I – accountants' report in this prospectus.

As at the Latest Practicable Date, approximately HK$111.1 million (or 93.1%) out of the HK$119.3 million trade receivables outstanding as at 30 April 2017, had been subsequently settled. The remaining unsettled trade receivables as at the Latest Practicable Date was mainly due to certain of our customers and consignment counters took a longer time in settling our trade receivables because certain administrative procedures such as invoice reconciliation need to be completed before these customers and consignment counters could complete their payment process. We are not aware of any material change to customers' and consignment counters' repayment cycle. Our management performs regular review on the recoverability of trade receivables, and has made adequate allowance for doubtful debts on balances that are considered to have recoverability problem. Allowance for doubtful debts (reversal of allowance for doubtful debts) for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017 was approximately HK$(2.0) million, HK$2.9 million, HK$(2.1) million and

HK$0.7 million, respectively. We consider that no additional allowance is required for doubtful debts as at 30 April 2017 because (i) we have relatively long history of cooperation with these customers and consignment counters; (ii) we are not aware of any dispute on trade receivables from these customers and consignment counters; and (iii) these customers and consignment counters settled their balances due to us from time to time.

Other receivables

The following table sets forth an analysis of our other receivables, deposits and prepayments as at 31 December 2014, 2015 and 2016 and 30 April 2017:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	17,185	23,152	28,719	30,118
Deferred listing expenses	–	–	2,842	3,827
Prepayments for purchase of merchandise stock for resale and operating expenses	11,190	12,169	20,265	19,265
Promotion income receivable from our brand owners	4,738	6,583	2,614	189
Other tax recoverable	8,980	9,382	14,703	14,420
Others	1,043	1,407	2,280	3,845
Rebate receivables from suppliers	–	–	–	12,535
Total	43,136	52,693	71,423	84,199

Our receivables, deposits and prepayments primarily included deposits, prepayments for purchase for purchase of merchandise stock for resale and operating expenses (which include prepaid listing expenses, rental expenses, advertising fee and renovation expenses), promotion income receivable from our brand owners, other tax recoverable, deferred listing expenses and other miscellaneous receivables. As at 31 December 2014, 2015, 2016 and 30 April 2017, our other receivables, deposits and prepayments amounted to approximately HK$43.1 million, HK$52.7 million, HK$71.4 million and HK$84.2 million, respectively.

Deposits represent rental deposits paid to landlords of our premises (including retails stores and offices), deposits paid to decoration companies and security deposits paid to department store operators which are refundable within 12 months. Prepayments for purchase of merchandise stock for resale and operating expenses represents payment in advances for toy and infant products ordered from our brand owners, advertising expenses, prepayments for leasehold improvements and rental payments. Promotion income receivable from our brand owners represents promotion income from receivables from our brand owners for the marketing activities we held. Other tax recoverable represents the net balances of input value-added tax arising from domestic purchase of goods which can be set off with the output value-added tax arising from domestic sales at the end of each financial year, subject to approval of tax authority.

Our other receivables, deposits and prepayments increased by approximately 22.3% or HK$9.6 million from approximately HK$43.1 million as at 31 December 2014 to approximately HK$52.7 million as at 31 December 2015. The increase was primarily due to the increase in deposits for our self-operated retail points and a office premises as a result of the expansion of our retail network in FY2015 and the increase in our promotion income receivables from supplies which was a result of the increase in our promotion income from brand owners.

Our other receivables, deposits and prepayments increased significantly by approximately 35.5% or HK$18.7 million from approximately HK$52.7 million as at 31 December 2015 to approximately HK$71.4 million as at 31 December 2016. The increase was due to the increase in deposits for our self-operated retail points and a office premises as a result of the expansion of our retail network in FY2016, the increase in prepayment for purchase of merchandise stock for resale and operating expenses, renovation expenses which was attributable to the increase in prepayment for advertising expenses, renovation expenses and rental expenses and the incurrence of prepaid expenses relating to the Listing.

Our other receivables, deposits and prepayments as at 30 April 2017 remain stable at approximately HK$71.7 million.

Trade payables

Trade payables balance as at 31 December 2014, 2015 and 2016 and 30 April 2017 principally represented the outstanding amounts payable by us to our brand owners of toy products and infant products. During the Track Record Period, the payment term for the brand owners of toy products and infant products were generally with a credit term of 60 days to 90 days.

The following table sets forth analysis of our trade payables as at 31 December 2014, 2015 and 2016 and 30 April 2017:

	As at 31 December			**As at 30 April**
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	221,269	215,851	254,759	179,014

Our trade payables balance remained stable at from approximately HK$221.3 million as at 31 December 2014 and was approximately HK$215.9 million as at 31 December 2015.

Our trade payables balance increased by approximately 18% or HK$38.9 million from approximately HK$215.9 million as at 31 December 2015 to approximately HK$254.8 million as at 31 December 2016. The increase was due to the increase in purchase during the fourth quarter of FY2016 as a result of the expected increase in the purchase price of toy products from certain brand owners in FY2017.

Our trade payables balance decreased by approximately 29.7% or HK$75.8 million from approximately HK$254.8 million as at 31 December 2016 to approximately HK$179.0 million as at 30 April 2017. The decrease was due to we purchased fewer inventories during the four months ended 30 April 2017 as we implemented inventory control during the four months ended 30 April 2017 and that we maintained a relatively lower inventory level during the first half of a year as we expected a relatively lower sales volume during the first half of a year.

The following table sets forth the turnover of our trade payables for the periods indicated.

	FY2014	**FY2015**	**FY2016**	**For the four months ended 30 April 2017**
Average trade payables turnover (days) *(Note)*	95	103	105	90

Note: The number of average trade payables turnover days is calculated based on the average trade payables of our Group (sum of opening and closing balances of trade payables of respective years/period and then divided by two) divided by the cost of goods sold of the respective years and multiplied by the number of days in the year.

Our average trade payables turnover days increased from approximately 95 days for FY 2014 to 103 days for FY2015, and increased to approximately 105 days for FY2016. It decreased to approximately 90 days for the four months ended 30 April 2017 because of our inventory control and that we maintained a relatively lower inventory level during the first half of a year. Our average trade payables turnover days during the Track Record Period marginally exceed the general credit term granted to us by our brand owners principally because we then need to keep more cash resources for opening new retail points.

The following table sets forth a summary of the average age of our trade payables (based on the invoice date) as at the end of the reporting periods indicated.

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ageing analysis:				
Within 30 days	138,711	119,107	167,980	115,384
31 to 60 days	80,720	74,927	77,601	50,395
61 to 90 days	1,696	18,442	8,999	9,729
Over 90 days	142	3,375	179	3,506
Total	221,269	215,851	254,759	179,014

Our trade payables due within 30 days increased significantly from approximately HK$119.1 million as at 31 December 2015 to approximately HK$168.0 million as at 31 December 2016 principally due to the increase in our purchase order during the fourth quarter of FY2016 in order to avoid an expected increase in the purchase price of toy products from certain brand owners.

Our trade payables which is due within 61 – 90 days increased significantly from approximately HK$1.7 million as at 31 December 2014 to approximately HK$18.4 million as at 31 December 2015 and our trade payables over 90 days increased significantly from approximately HK$0.1 million as at 31 December 2014 to approximately HK$3.4 million as at 31 December 2015. The increase of trade payables of 61 to 90 days and over 90 days was primarily due to we purchased more from two brand owners who granted us a credit term of 90 days.

Our trade payables aged within 30 days decreased significant from approximately HK$168.0 million as at 31 December 2016 to approximately HK$115.4 million as at 30 April 2017 which was because our Group made fewer purchases of inventories in January and February in anticipation of the low season in March and April.

As at 31 August 2017, approximately HK$160.5 million out of the HK$179.0 million trade payables as at 30 April 2017 had been subsequently settled.

Other payables and accruals

The following table sets forth analysis of our Group's other payables and accruals as at 31 December 2014, 2015 and 2016 and 30 April 2017:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits received from customers	24,660	23,833	36,127	24,166
Accrued expenses	21,775	24,424	39,042	24,090
Provision for retirement benefit costs	31,525	41,349	43,443	48,843
Provision for reinstatement costs	10,851	14,036	15,142	15,026
Other taxes payable	19,871	12,899	16,321	11,195
Others	1,266	614	1,334	1,917
Total	109,948	117,155	151,409	125,237

Our other payables and accruals principally represent deposits received from customers, accrued expenses, provision for retirement benefit costs, provision for reinstatement costs, other taxes payable and other miscellaneous payables.

Deposits received from customers principally represent deposits received from our distributors. Accrued expenses mainly represent accrued transportation cost, accrued listing expenses and salaries payables to our employees. Provision for retirement benefit costs represents social insurance payment. Provision for reinstatement costs represents the provision for reinstating our rented premises to original conditions before our leases expire. Other taxes payable represents principally our output value-added tax charged on our own sales of products and tax charged by PRC local authorities, such as city construction tax and education levy.

Our Group's other payables and accruals remained stable during FY2014 and FY2015. Our provision for retirement benefit costs increased from approximately HK$31.5 million as at 31 December 2014 to approximately HK$41.3 million as at 31 December 2015 principally due to the increase in the number of staff. Such increase was set off by the decrease in other tax payables because of the ending balances of output value-added tax arising from domestic sales decrease.

Our other payables and accruals increased significantly from approximately HK$117.2 million as at 31 December 2015 to approximately HK$151.4 million as at 31 December 2016 principally due to the increase in our deposits received from our customers from approximately HK$23.8 million as at 31 December 2015 to approximately HK$36.1 million as at 31 December 2016 because of the increase in sales orders from certain of our wholesale customers towards the end of the year and the increase in our accrued expenses from HK$24.4 million as at 31 December 2015 to approximately HK$39.0 million as at 31 December 2016 because of the increase in salaries payable as at 31 December 2016 as compared to that as at 31 December 2015 as a result of the increase in the number of our staff, the increase in our accrued transportation cost and the accruals of Listing expenses during FY2016 in the preparation for the Listing.

Our other payables and accruals decreased significantly from approximately HK$151.4 million as at 31 December 2016 to approximately HK$125.2 million as at 30 April 2017 principally due to the decrease in our deposits received from our customers from approximately HK$36.1 million as at 31 December 2016 to approximately HK$24.2 million as at 30 April 2017 because of the relatively lower sales orders received from our customers in the first half of a year and the decrease in our accrued expenses from HK$39.0 million as at 31 December 2016 to approximately HK$24.1 million as at 30 April 2017 as we opened more shops during the second half of 2016 as compared with the first half of 2017 so we incurred more renovation works and, as a result, accruals were made. The decrease in our other taxes payable from approximately HK$16.3 million as at 31 December 2016 to approximately HK$11.2 million as at 30 April 2017 because our sales revenue in April 2017 is lower than our sales revenue in December 2016, which result in the decrease in our value-added tax payable for that month.

Current tax liabilities

Our current tax liabilities represent our enterprise income tax payable. It remained stable at approximately HK$14.8 million, HK$11.5 million, HK$16.6 million and HK$2.5 million as at 31 December 2014, 2015 and 2016 and 30 April 2017, respectively.

Amounts due from/to related parties

Our amount due from a related company was non-trade in nature, unsecured, interest-free and repayable on demand.

Our amounts due to Mr. Lee, immediately holding company, related companies and non-controlling interest were non-trade in nature, unsecured, interest-free and repayable on demand, except for an amount due to a related company of about HK$116.9 million, HK$94.3 million, HK$93.0 million and HK$92.0 million as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively, was of trade nature and have a credit period of 90 days.

Except for the special dividend of HK$50 million (as disclosed in the paragraph headed "dividend" in this section) and the amount due to non-controlling interest which will be settled prior to the Listing, all amounts due to related parties will be fully waived prior to the Listing.

Current assets and current liabilities

The following table sets forth our current assets and current liabilities by category as of the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2014	**2015**	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets					
Inventories	356,847	441,928	506,059	482,655	558,398
Trade receivables	115,520	116,137	141,039	119,328	169,871
Other receivables, deposits and prepayments	43,136	52,693	71,423	84,199	119,179
Amount due from a related party	114	107	101	–	4,878
Bank balances and cash	191,391	156,377	173,365	137,814	118,689
Total current assets	707,008	767,242	891,987	823,996	971,015
Current liabilities					
Trade payables	221,269	215,851	254,759	179,014	245,488
Other payables and accruals	103,322	105,840	142,835	117,498	131,862
Amounts due to related parties	195,465	187,025	182,340	125,674	183,246
Current tax liabilities	14,795	11,454	16,588	2,508	13,919
Total current liabilities	534,851	520,170	596,522	424,694	574,515
Net current assets	172,157	247,072	295,465	399,302	396,500

We generated/(used) operating cash flows of approximately HK$54.1 million, HK$(17.8) million, HK$61.2 million and HK$(59.0) million for FY2014, 2015 and 2016 and the four months ended 30 April 2017, respectively. We had net current assets of approximately HK$172.2 million, HK$247.1 million, HK$295.5 million and HK$399.3 million as at 31 December 2014, 2015 and 2016 and the four months ended 30 April 2017, respectively.

Our current assets as at 31 December 2014, 2015 and 2016 and 30 April 2017 amounted to HK$707.0 million, HK$767.2 million, HK$892.0 million and HK$824.0 million, respectively, which primarily consisted of inventories, trade receivables, other receivables, deposits and prepayments, amount due from a related party and bank balances and cash. Our current liabilities as at 31 December 2014, 2015, 2016 and 30 April 2017 amounted to HK$534.9 million, HK$520.2 million, HK$596.5 million and HK$424.7 million, respectively, with trade payables, other payables and accruals, amounts due to related parties and current tax liabilities being our major current liabilities components.

Our net current assets position improved by HK$74.9 million, from HK$172.2 million as at 31 December 2014 to HK$247.1 million as at 31 December 2015, which was primarily attributable to the increase in inventories from approximately HK$356.8 million as at 31 December 2014 to approximately HK$441.9 million as at 31 December 2015 due to the increase in our retail points which require higher volume of base stocks.

Our net current assets position improved by HK$48.4 million, from HK$247.1 million as at 31 December 2015 to HK$295.5 million as at 31 December 2016, which was primarily attributable to the increase in inventories from approximately HK$441.9 million as at 31 December 2015 to approximately HK$506.1 million as at 31 December 2016, and the increase in trade receivables from approximately HK$116.1 million as at 31 December 2015 to approximately HK$141.0 million as at 31 December 2016, which was partly off set by the increase in other payables and accruals from approximately HK$105.8 million as at 31 December 2015 to HK$142.8 million as at 31 December 2016.

Our net current assets increased to HK$399.3 million as of the 30 April 2017 compared to 31 December 2016. Our inventories decreased by 4.6% from HK$506.1 million as of 31 December 2016 to HK$482.7 million as of the 30 April 2017, primarily due to our success in cleaning up certain long aged inventories as of 31 December 2016. Our trade payables decreased by 29.7% from HK$254.8 million as of 31 December 2016 to HK$179.0 million as of the 30 April 2017, primarily due to our repayment of trade payables that became due and our decreased purchases of inventories in order to decrease the inventory level. Our trade receivables decreased by 15.4% from HK$141.0 million as of 31 December 2016 to HK$119.3 million as of the 30 April 2017, primarily due to our relatively higher level of credit sales as of 30 April 2017.

Our net current assets slightly decreased to HK$396.5 million as of the 31 August 2017 compared to 30 April 2017. Our inventories increased by 15.7% from HK$482.7 million as of 30 April 2017 to HK$558.4 million as of 31 August 2017, primarily due to preparation, during summer, for the end of the year high season. Our trade payables increased by 37.2% from HK$179.0 million as of 30 April 2017 to HK$245.5 million as of 31 August 2017, primarily due to our increased purchases of inventories in order to prepare, during summer, for the end of the year high season. Our trade receivables increased by 42.4% from HK$119.3 million as of 30 April 2017 to HK$169.9 million as of 31 August 2017, primarily due to our relatively higher level of credit sales as of 31 August 2017.

Directors' opinion on the sufficiency of our working capital

As at 30 April 2017, we had net current assets of approximately HK$399.3 million. We generated a negative cash flow from operating activities, which amounted to approximately HK$59.0 million for the four months ended 30 April 2017. To support our working capital requirements, we expect to generate positive cash flow from our operating activities.

As at 31 August 2017, we had net current assets of approximately HK$396.5 million. As at the Latest Practicable Date, we also had an unutilised credit facility granted by our banker of HK$83.0 million.

Moreover, upon completion of the Global Offering, assuming that the Offer Price is approximately HK$1.5 per Offer Share, being the low-point of the indicative Offer Price range, and assuming that Over-allotment Option is not exercised, the aggregate net proceeds to us will be approximately HK$271.1 million, of which HK$27.1 million is intended to be applied by us as general working capital.

Our Directors are of the opinion that after taking into account the existing financial resources available to us, the expected internally-generated funds and the estimated net proceeds from the Global Offering, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus.

RELATED PARTY TRANSACTIONS

The following table sets forth a summary of significant related party transactions during the Track Record Period carried out by our Group in the normal course of its business:

		For		For the four months ended 30 April	
	FY2014	**FY2015**	**FY2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Marketing service fee					
Captcha Media Limited	–	–	890	60	360
Rental expenses					
Land Smart Development Limited ("**Land Smart**")	1,544	1,492	1,167	286	574
Management fee					
Lovable International Holdings	58	–	–	–	–

Our related party transactions occurred during the Track Record Period mainly comprises of (i) marketing service fee paid to Captcha Media Limited for promotion of products sold in LCS in Hong Kong; (ii) rental expenses paid to Land Smart in relation to the lease of our office premises; and (iii) management fee receivable from Lovable International relating to sharing of certain expenses in respect of the use of offices.

CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

Our Group's contractual obligations and off-balance sheet arrangements mainly represent our operating lease commitment in relation to our non-cancellable leases of our retail points.

Commitments

Operating leases commitments

Our commitments represent our operating leases commitments for our rent payables for our office premises.

The future aggregate minimum lease payments under non-cancellable operating leases for FY2014, FY2015 and FY2016 and 30 April 2017 are as follows:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	74,811	92,361	99,644	100,232
In the second to fifth year, inclusive	81,880	81,239	98,051	87,160
Over five years	504	38	–	–
Total	157,195	173,638	197,695	187,392

Capital commitments

The following table sets forth an aggregate capital commitment as at 31 December 2014, 2015 and 2016 and 30 April 2017:

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for in respect of acquisition of property, plant and equipment	1,114	3,965	609	1,480

Our capital commitment principally represents our commitment for acquisition of leasehold improvement for our premises (including retail shops and consignment counters).

Save for the operating lease commitment as lessee and capital commitment of approximately HK$188.9 million mentioned above, our Group has not entered into, nor do we expect to enter into, any off balance sheet commitments as at 30 April 2017.

FINANCIAL INSTRUMENTS

As of the Latest Practicable Date, we had not entered into any financial instruments for hedging purposes.

INDEBTEDNESS

As at 31 December 2014, 2015 and 2016, 30 April 2017 and 31 August 2017 we had no outstanding bank borrowings.

	As at 31 December			As at 30 April	As at 31 August
	2014	**2015**	**2016**	**2017**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to Mr. Lee	7,588	3,591	2,073	2,924	2,850
Amount due to non-controlling interest	12,167	11,456	10,726	10,835	11,374
Amounts due to related companies	42,784	63,276	63,357	8,737	9,146
Amount due to then immediate holding company	16,024	14,385	13,214	11,182	67,154
Total	78,563	92,708	89,370	33,678	90,524

The amounts due to Mr. Lee, non-controlling interest, related companies and the then immediate holding company are unsecured, unguaranteed, interest-free and repayable on demand. As at 31 August 2017, apart from amounts due to Mr. Lee, non-controlling interest, related companies and the then immediate holding company totalling of HK$90.5 million and intra-group liabilities, our Group did not have any loan capital and debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts, liabilities under acceptances or acceptance credits, loans and other similar indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Except for the special dividend of HK$50 million (as discussed in the paragraph headed "dividend" in this section) and the amount due to non-controlling interest which will be settled prior to the Listing, all amounts due to related parties will be fully waived prior to the Listing.

Banking Facility

As at 31 August 2017, we had an unutilised credit facility granted by our banker of HK$83.0 million. Our banking facilities are secured by a personal guarantee of Mr. Lee in favour of the commercial bank. The bank had agreed that the personal guarantee provided by Mr. Lee will be released upon Listing.

Our facility agreements contains standard terms and conditions that are customary for commercial banking facilities. Our facility agreement contains material covenants that, among others, restrict us from conducting mergers, acquisitions, divisions or other reorganisations, disposing of material assets, making material investments, or incurring material indebtedness. During the Track Record Period and up to the Latest Practicable Date, we had no violations of these covenants that could have a material adverse effect on our business operations. During the Track Record Period, we did not experience any default in repayment of our bank loans or any difficulties in obtaining bank facilities with terms that are commercially acceptable to us. Our facility agreements generally require us to obtain the banks' consents or make appropriate repayment or security arrangements with the banks before material mergers and acquisitions. As of the Latest Practicable Date, we did not have any plan for material external debt financing save for the withdrawal and usage of the banking facilities abovementioned. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as factors beyond our control.

Guarantees

During the Track Record Period and as at 31 August 2017, we did not provide any guarantee to any third party.

Disclaimers

Save as disclosed above, and apart from intra-group liabilities, our Group did not have outstanding at the close of business on the indebtedness date any debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 August 2017 and up to the date of this prospectus.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities.

DIVIDEND

During the Track Record Period and up to the Latest Practicable Date, our Company declared a special dividend of approximately HK$50 million to its then holding company, which will be paid prior to Listing. The special dividend will be paid in cash out of our internally generated resources. Save for the above, no dividend was paid or declared by our Company or its subsidiaries to external parties during the Track Record Period and from 30 April 2017 to the Latest Practicable Date.

Following completion of the Global Offering, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and amount of dividends declared by our Board will depend upon our Group's (i) overall results of operation; (ii) financial position; (iii) capital requirements; (iv) shareholders' interests; (v) future prospects; and (vi) other factors which our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Our Group currently has neither formulated any dividend policy nor determined any target dividend payout rate after Listing. Nevertheless, this should not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. There is no expected dividend payout ratio after the Listing.

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries, in particular our operating subsidiaries in China. Our subsidiaries in the PRC must comply with its articles of association and the PRC laws and regulations in declaring and paying dividends to us. Pursuant to laws in China, dividends may only be paid out of distributable profits defined as after tax profits as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our operating subsidiary in China. In general, we will not declare dividends in a year where we do not have any distributable earnings.

Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 26 April 2017 and has not carried on any business since the date of its incorporation. Accordingly, our Company did not have any distributable reserve available for distribution to our Shareholders as at 30 April 2017.

LISTING EXPENSES

The total amount of listing expenses that will be borne by us in connection with the Global Offering is estimated to be approximately HK$42.8 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately HK$17.3 million is expected to be accounted for as a deduction from equity in accordance with the relevant accounting standard. The remaining approximately HK$25.5 million fees and expenses was or is expected to be charged to our profit or loss accounts, of which HK$8.5 million and HK$3.0 million was charged for 2016 and the four months ended 30 April 2017, respectively, and approximately HK$14.0 million is expected to be charged upon Listing. It is noted that the professional fees and/or other expenses related to the preparation of Listing subsequent to 30 April 2017 are the current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

Our Group exposes to certain major interest rate risks, foreign currency risk, credit risk and liquidity risk.

We have established an effective system of internal control and risk management procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. For details, please refer to the section headed “Business – Internal control” in this prospectus.

Interest rate risk

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

Foreign exchange risk

Our Group have foreign currency sales and purchases, which expose our Group to foreign currency risk. Our Group currently does not have a formal foreign currency hedging policy in foreign currency risk. However, management monitors interest rate exposure and will consider hedging significant currency risk should the need arise.

For details of our monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies at each of the ends of the reporting periods during the Track Record Period and relevant sensitivity analysis, please refer to note 25 of the accountant's report at Appendix I of this prospectus.

Credit risk

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

Our Group's credit risk is primarily attributable to our trade and other receivables. Our directors consider that our Group's credit risk in relation to sales made at consignment counters is limited as our Group only operates consignment counters in leading and reputable department stores. For other customers, our management closely monitors settlement status and regularly updates their credit profile to ensure that our Group's credit risk is properly managed.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 April 2017, approximately 4%, 6%, 8% and 11%, respectively, of our total trade receivables were due from our largest debtors and approximately 17%, 14%, 26% and 24%, respectively, of our total trade receivables were due from our five largest debtors.

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

For details our remaining contractual maturity for its non-derivative financial liabilities, please refer to note 25 of the accountant's report at Appendix I of this prospectus.

KEY FINANCIAL RATIOS

Our common key financial ratios are set out below:

	Notes	As at/for the year ended 31 December 2014	2015	2016	As at/for the four months ended 30 April 2017
Return on equity (%)	*1*	46.5	36.0	24.8	16.4
Current ratio	*2*	1.32	1.47	1.50	1.94
Quick Ratio	*3*	0.65	0.63	0.65	0.80
Gearing ratio	*4*	–	–	–	–
Net debt to equity ratio	*5*	–	–	–	–

Notes:

1. Return on equity is calculated based on the annualised profit for the year/period divided by total equity at the end of the year/period and multiplied by 100%.

2. Current ratio is calculated based on the total current assets at the respective dates divided by the total current liabilities at the respective dates.

3. Quick ratio is calculated based on the total current assets (excluding inventories) at the respective dates divided by the total current liabilities at the respective dates.

4. Gearing ratio represents bank borrowings divided by total equity as at the end of the financial year/period.

5. Net debt to equity ratio represents bank borrowings less cash and cash equivalents divided by total equity as at the end of the financial year/period.

Return on equity

Our return on equity was approximately 46.5%, 36.0%, 24.8% and 16.36% for FY2014, FY2015 and FY2016 and the four months ended 30 April 2017, respectively. Such decrease was due to the growth rate in net profit during FY2015, FY2016 and the four months ended 30 April 2017 could not catch up with equity growth.

Current ratio

Our current ratio was approximately 1.32, 1.47, 1.50 and 1.94 as at 31 December 2014, 2015 and 2016 and 30 April 2017, respectively. The increase was primarily a result of the increase in inventories of the Group from approximately HK$356.8 million as at 31 December 2014 to approximately HK$441.9 million as at 31 December 2015, which further increased to approximately HK$506.1 million as at 31 December 2016. The inventories of the Group decreased to approximately HK$482.7 million as at 30 April 2017.

Quick ratio

Our quick ratio remained stable at approximately 0.65, 0.63, 0.65 and 0.80 as at 31 December 2014, 2015 and 2016 and 30 April 2017, respectively.

Gearing ratio and net debt to equity ratio

As at 31 December 2014, 2015 and 2016 and 30 April 2017, we did not have any bank borrowings.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

Our business model, revenue structure and cost structure basically remained unchanged, subsequent to the Track Record Period and up to the Latest Practicable Date. Based on the unaudited consolidated management accounts of our Group, we continued to record growth in our revenue for the four months ended 31 August 2017 as compared to the corresponding period in FY2016. Such growth in our revenue was primarily due to increase in quantity sold. Our gross profit margin for the four months ended 31 August 2017 dropped slightly due to the increase in cost of purchase.

Subsequent to the Track Record Period, we have continued to expand our self-operated retail and wholesale channels and product offerings. For our self-operated retail channels, as at 31 August 2017, the number of our retail points in the PRC increased to 755, comprising 231 retail shops and 524 consignment counters, from 754 as at 30 April 2017 and we operated two retail shops (being LCS) in Hong Kong. As at the Latest Practicable Date, we had ten flagship stores on Tmall and two online stores on JD.com. We also launched a Kidsland store on Xiaohongshu (小紅書), a mobile application of online consumer platform operated by Independent Third Party, in August 2017 which provides its registered users with a platform to purchase our selected products and other products on mobile phones. For our wholesale channels, as at 31 August 2017, we had 919 distributors in the PRC and had wholesale arrangements with 14 hypermarket and supermarket chains and 16 online key accounts in the PRC. As at 31 August 2017, we sold LEGO products and/or other toys or infant products via (i) 514 retail points of our Group in 64 cities across 25 provinces, autonomous regions and municipalities in the PRC; (ii) three online stores of our Group; (iii) over 2,000 retail shops operated by our wholesale customers in 103 cities across 30 provinces, autonomous regions and municipalities in the PRC and (iv) online platforms operated by 11 online key accounts.

Subsequent to the Track Record Period and up to 31 August 2017, one distributorship agreement expired without renewal and our Group entered into distributorship agreements with two brand owners, under which our Group is authorised to distribute products under the specified brands or other related brands exclusively in the PRC for a specified term. Such agreements are renewable for a further term of two years upon mutual agreement and contain terms similar to other distributorship agreements entered into by us and other brand owners. Subsequent to the Track Record Period and up to the Latest Practicable Date, we were in negotiation with three potential brand owners.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted combined net tangible assets of our Group as set out in Appendix II to this prospectus has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 30 April 2017 or at any future date. It is prepared based on our combined net assets as at 30 April 2017 as set out in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, after deduction of the intangible assets. The unaudited pro forma statement of adjusted combined net tangible assets of our Group does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

FUTURE PLANS

A detailed description of our future plans is set forth in the section headed "Business – Business strategies" in this prospectus.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, and assuming an Offer Price of HK$1.85 per Offer Share, being the mid-point of the indicative Offer Price range of HK$1.5 to HK$2.2 and the Over-allotment Option is not exercised) are approximately HK$339.4 million.

Our Directors intend to apply the net proceeds (assuming the mid-point of the indicative Offer Price range is determined and the Over-allotment Option is not exercised) from the Global Offering for the following purposes:

- approximately HK$207.0 million, representing approximately 61% of the net proceeds from the Global Offering, will be used to expand our retail network in the PRC and Hong Kong, of which:

  - approximately HK$71.3 million, representing approximately 21% of the net proceeds from the Global Offering will be used to open flagship toy stores in the PRC (for further details, please refer to the section headed "Business – Business Strategies – Increasing our penetration of existing sales channels and expanding our geographic coverage to additional cities in the PRC and to Hong Kong" in this prospectus);

  - approximately HK$54.3 million, representing approximately 16% of the net proceeds from the Global Offering will be used to open Kidsland and Babyland stores in the PRC;

  - approximately HK$40.7 million, representing approximately 12% of the net proceeds from the Global Offering will be used to open LEGO Certified Stores in the PRC and Hong Kong; and

  - approximately HK$40.7 million, representing approximately 12% of the net proceeds from the Global Offering, will be used to upgrade the information technology system, develop our online business and upgrade store image, visual display and other marketing expenses at our retail points.

  For further details, please refer to the section headed "Business – Business strategies" in this prospectus.

- approximately HK$61.1 million, representing approximately 18% of the net proceeds from the Global Offering, will be used to strengthen our capabilities in product development under our existing or new brands. For further details, please refer to the section headed "Business – Business strategies – Strengthening recognition of our existing brands and enhancing consumer loyalty, and developing products under our existing or new brands" in this prospectus;

- approximately HK$37.3 million, representing approximately 11% of the net proceeds from the Global Offering, will be used to develop experience centres and associated products. For further details, please refer to the section headed "Business – Business strategies" in this prospectus; and

- approximately HK$34.0 million, representing approximately 10% of the net proceeds from the Global Offering, will be used towards working capital and other general corporate purposes.

The additional net proceeds that we will receive if the Over-allotment Option is exercised in full will be approximately HK$54.1 million (assuming the Offer Price at the mid-point of the stated Offer Price range of HK$1.85).

If the Over-allotment Option is exercised in full, our Directors intend to apply all the additional net proceeds for the above uses on a pro rata basis. If the Offer Price is fixed at HK$2.2, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by approximately HK$68.3 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK$132.6 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to use such additional proceeds for the above uses in the proportions stated above.

If the Offer Price is fixed at HK$1.5, being the low end of the stated Offer Price range, our net proceeds will instead be decreased by approximately HK$68.3 million, assuming the Over-allotment Option is not exercised. Our Directors currently intend to reduce our use of proceeds proportionately as earmarked.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

HONG KONG UNDERWRITERS

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

Haitong International Securities Company Limited

Co-lead Managers

Get Nice Securities Limited
Sinomax Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters, both on several bases and subject to agreement on pricing of the Offer Shares being entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Hong Kong Underwriting Agreement was entered into on 30 October 2017. In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with, among others, the International Underwriters. The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Underwriting Agreement being entered into, and the respective Underwriting Agreements are expected to be inter-conditional.

Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we have agreed to offer the Hong Kong Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, among other conditions, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Shares, in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the Offer Price being determined by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the entering into of the International Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date, the Hong Kong Underwriters have agreed to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of the Hong Kong Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is entitled to terminate the Hong Kong Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the Listing Date ("**Termination Time**") to our Company if any of the following events shall occur prior to the Termination Time:

(a) there comes to the notice of any of the Sole Sponsor, the Sole Global Coordinator or any of the Hong Kong Underwriters of any matter or event showing:

(i) any of the representations, warranties or undertakings contained in the Hong Kong Underwriting Agreement given by our Company or any of the executive Directors and the controlling shareholders to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Hong Kong Underwriting Agreement (other than those undertaken by the Hong Kong Underwriter, the Sole Sponsor and/or the Sole Global Coordinator) which, in any such cases, is considered, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), to be materially adverse in the context of the Global Offering; or

(ii) any statement contained in this prospectus or the Application Forms has become or been discovered to be untrue, incorrect or misleading in any material respect or any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, a material omission in the context of the Global Offering; or

(iii) any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company or any of the executive Directors and the controlling shareholders arising out of or in connection with any representations, warranties or undertakings contained in the Hong Kong Underwriting Agreement; or

(b) there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Hong Kong Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any material change in existing laws or regulations or any material change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC, any of the jurisdictions in which our Group operates (the "**Relevant Jurisdiction**"); or

(ii) any change in, or any event or series of events or development resulting or likely to result in any material change in the local, national, regional or international financial, currency, stock market conditions or prospects or political, military, industrial, economic conditions or prospects, or in the Relevant Jurisdiction; or

(iii) any change in the conditions of Hong Kong, the PRC or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdiction; or

(vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of our Group; or

(vii) the imposition of economic sanction, in whatever form, by the US, the European Union (or any member thereof), or the United Nations on Hong Kong or the PRC; or

(viii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by relevant local authorities; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance) in any of the Relevant Jurisdiction,

which, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

(aa) is or will be materially adverse to the business, financial or trading condition or prospects of our Group taken as a whole; or

(bb) has or will have a material adverse effect on the success of the Global Offering as a whole or the level of the Offer Shares being demanded, applied for or accepted or the distribution of the Offer Shares; or

(cc) for any reason makes it impracticable, inadvisable or inexpedient to proceed with the Global Offering as a whole.

Undertakings

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by Our Company

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholders

Under Rule 10.07(1) of the Listing Rules, the Controlling Shareholders shall not, and procure that the relevant registered holder(s) shall not:

(a) during the First Lock-up Period (as defined below), 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 or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or

(b) at any time during the Second Lock-up Period (as defined below), 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 or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be our Controlling Shareholder (as defined in the Listing Rules).

In accordance with Note (3) of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has also undertaken to us and the Stock Exchange that, during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is the 12 months from the Listing Date, he/it will:

(1) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favour of an authorised institution 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 securities so pledged or charged; and

(2) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Under Note (3) to Rule 10.07(2) of the Listing Rules, we are required to inform the Stock Exchange as soon as practicable after we have been informed of the matters referred to in (1) or (2) above by any of the Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

Under the Hong Kong Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriter that, and each of the Controlling Shareholders and the executive Directors has jointly and severally undertaken to and covenanted with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters to procure (so far as he/it is able to do so) that without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Capitalisation Issue, the grant of the Over-allotment Option, the Shares to be issued upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the exercise of options which were granted under the Pre-IPO Share Option Scheme and Shares to be issued pursuant to any options which may be granted under the Post-IPO Share Option Scheme (as defined in this prospectus) or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the Memorandum and the Articles or any consolidation, sub-division or capital reduction of the Shares or any circumstances permitted under Rule 10.08 of the Listing Rules, our Company shall not:

(a) allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company or offer or agree to do any of the foregoing or announce any intention to do so:

    (i) at any time during the period commencing from the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date ("**First Lock-up Period**"); or

    (ii) at any time during the six months commencing on the date which the First Lock-up Period expires (the "**Second Lock-up Period**") so as to result in the Controlling Shareholders, taken together with the other of them, ceasing to be a group of Controlling Shareholders (as defined in the Listing Rules) of our Company; or

(b) at any time during the First Lock-up Period, subject to the Listing Rules and the Takeovers Codes, our Company shall not make or agree to make any repurchase of Shares or other securities of our Company.

(B) Undertakings by our Controlling Shareholders

Under the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, save as (i) pursuant to the Global Offering or the Stock Borrowing Agreement; or (ii) permitted under the Listing Rules, without the prior written consent of our Company and the Sole Global Coordinator (for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters) (such consent not to be unreasonably withheld or delayed):

(a) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of, or enter into any agreement to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;

(b) each of the Controlling Shareholders shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of, or enter into any agreement to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or announce any intention to do so, if, immediately following such action, the Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and

(c) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the period commencing on the date by reference to which disclosure of his/its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it shall:

(i) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company or those of Asian Glory beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by us, the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters); and

(ii) subsequent to the pledge or charge or creation of rights or encumbrances over our Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (i) above, when he/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be sold, transferred or disposed of, immediately inform us of such indications, and inform the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

International Underwriting Agreement

In connection with the International Offering, it is expected that our Company, executive Directors and the Controlling Shareholders will enter into the International Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters on or before the Price Determination Date. It is expected that under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the International Offer Shares to be initially being offered under the International Offering (subject to reallocation) on and subject to the terms of the International Underwriting Agreement. The International Underwriting Agreement is expected to contain force majeure provisions as that contained in the Hong Kong Underwriting Agreement as mentioned above. In the event that the International Underwriting Agreement is not entered into on or before the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed and will lapse.

It is expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Offering.

Commission and expenses

Pursuant to the terms of the Hong Kong Underwriting Agreement, our Company has agreed to pay to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and, in the case of the International Underwriting Agreement, our Company will agree to pay to the Sole Global Coordinator (for itself and on behalf of the International Underwriters), an underwriting commission of 2.5% of the aggregate final Offer Price payable for the Offer Shares (including the Over-allotment Shares), out of which they will (as the case may be) pay any sub-underwriting commissions. The Sole Global Coordinator may, at our Company's discretion, receive our additional incentive fee of up to 1.0% of the aggregate sale proceeds for the Global Offering, including the proceeds from the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK$1.85 (being the mid-point of the Offer Price range of HK$1.5 per Offer Share and HK$2.2 per Offer Share), such underwriting commission and fees, together with the Stock Exchange listing fee, legal and other professional fees, applicable printing and other expenses relating to the Global Offering are estimated to be about HK$42.8 million in total and are payable by our Company.

Underwriters' interests in our Company

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above and the appointment of the Sole Sponsor as compliance adviser of our Company, none of the Underwriters has any shareholding interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group nor any interest in the Global Offering.

Minimum Public Float

Our Directors and the Sole Global Coordinator will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Friday, 3 November 2017, or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company may agree but in any event no later than on Thursday, 9 November 2017. **If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Thursday, 9 November 2017, the Global Offering will not become unconditional and will lapse**.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$2.2 per Offer Share and is expected to be not less than HK$1.5 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our Company's website at **www.kidslandholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement as currently disclosed in the section headed "Financial Information – Selected items of Combined Statements of Financial Position – Directors' opinion on the sufficiency of our working capital" in this prospectus, the Global Offering statistics as currently set out in the section headed "Summary – Global Offering Statistics" in this prospectus, the use of proceeds as currently disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus and any other financial information which may change as a result of such reduction. In the absence of any notice being published of a reduction in the number of Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

We expect to announce the final Offer Price, the level of indication of interest in the International Offering and the level of applications and the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering on or before Thursday, 9 November 2017 on our Company's website at **www.kidslandholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS or by applying through **HK eIPO White From** service which will be made available as described under the paragraph headed "11. Publication of results" under the section headed "How to apply for Hong Kong Offer Shares" of this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$2.2 per Offer Share and is expected to be not less than HK$1.5 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK$2.2 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK$4,444.34 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK$2.2 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional upon the satisfaction of all of the following conditions:

- the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus (including any additional Shares to be issued pursuant to any exercise of the Over-allotment Option), and such listing and permission not having been subsequently revoked prior to the commencement of trading in our Shares on the Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement and the Stock Borrowing Agreement on or about the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator for itself and on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the 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 that is 30 days after the date of this prospectus.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering on our Company's website at **www.kidslandholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk** on the day after such lapse. In such situation, we will return all application monies to the applicants, without interest and on the terms described in the paragraph headed "How to Apply for Hong Kong Offer Shares – 13. Refund of application monies" in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bankers or other banks licenced under the Banking Ordinance.

We expect to dispatch share certificates for the Offer Shares on or before Thursday, 9 November 2017. However, these share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 10 November 2017 provided that:

- the Global Offering has become unconditional in all respects; and

- the right of termination as described in the section headed "Underwriting" in this prospectus has not been exercised.

THE GLOBAL OFFERING

The Global Offering comprises the International Offering and the Hong Kong Public Offering. A total of 200,000,000 Shares will initially be made available under the Global Offering, of which 180,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the International Offering. The remaining 20,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the Hong Kong Public Offering. The number of Shares offered for subscription under the International Offering and the Hong Kong Public Offering will be subject to re-allocation on the basis described below and the number of Shares offered for subscription under the International Offering will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

THE INTERNATIONAL OFFERING

Our Company is initially offering, at the Offer Price, 180,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "– Re-allocation of Offer Shares between the Hong Kong Public Offering and the International Offering" below), representing 90% of the total number of Shares being initially offered under the Global Offering (before any exercise of the Over-Allotment Option), for subscription by way of International Offering. The International Offering will be managed by the Sole Global Coordinator and is expected to be fully underwritten by the International Underwriters. Pursuant to the International Offering, it is expected that the International Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the International Offer Shares at the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the International Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the International Offer Shares to professional, institutional and private investors pursuant to the International Offering 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 investor is likely to purchase further Shares, or hold or sell the Shares placed, after Listing. Such allocation is intended to result in a distribution of the International Offer Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and our Shareholders taken as a whole. Investors to whom International Offer Shares are offered are required to undertake not to apply for the Hong Kong Offer Shares under the Hong Kong Public Offering. The International Offering is subject to the conditions stated in the paragraph headed "– Conditions of the Global Offering" above.

OVER-ALLOTMENT OPTION

It is expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Offering. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the International Offering and/or to satisfy the Sole Global Coordinator's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Sole Global Coordinator may also cover any over-allocations under the International Offering through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 27.7% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

Based on an Offer Price of HK$1.85 per Offer Share (being the mid-point of the Offer Price range between HK$1.5 per Offer Share and HK$2.2 per Offer Share), the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK$339.4 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK$54.1 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Hong Kong Public Offering is open to the public as well as to institutional, professional and private investors in Hong Kong. The International Offering involves selective marketing of the International Offer Shares by the International Underwriters to professional, institutional and private investors. Investors may either apply for the Shares under the Hong Kong Public Offering or indicate an interest for the Shares under the International Offering, and may only receive an allocation of Shares under the Hong Kong Public Offering or the International Offering. The Offer Shares are not available for subscription by existing beneficial owners of the Shares, our Directors, chief executive of our Company or any of its subsidiaries or their respective close associates, or any other core connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become core connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Global Offering.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering, at the Offer Price, 20,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "– Re-allocation of Offer Shares between the Hong Kong Public Offering and the International Offering" below), representing 10% of the total number of Shares being initially offered under the Global Offering, for subscription under the Hong Kong Public Offering (before any exercise of the Over-allotment Option). The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. Applicants for the Hong Kong Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Hong Kong Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any International Offer Shares nor participated in the International Offering. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided into two pools of 10,000,000 Hong Kong Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

– Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

– Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 100% of the Hong Kong Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A or pool B, 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 the Hong Kong Offer Shares validly applied for by each applicant. When there is over subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares 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.

Applications under the Hong Kong Public Offering from investors receiving the International Offer Shares under the International Offering will be identified and rejected and investors receiving the Hong Kong Offer Shares under the Hong Kong Public Offering will not be offered the International Offer Shares under the International Offering. Multiple applications or suspected multiple applications or applications for more than 100% of the Hong Kong Offer Shares initially available in either pool A or pool B for public subscription under the Hong Kong Public Offering (i.e. to apply for more than 10,000,000 Hong Kong Offer Shares) are liable to be rejected.

The Hong Kong Public Offering is subject to the conditions as stated in the paragraph headed "– Conditions of the Global Offering" above.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE HONG KONG PUBLIC OFFERING AND THE INTERNATIONAL OFFERING

The allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering is subject to re-allocation. If the number of Offer Shares validly applied for in the Hong Kong Public Offering:

(a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 40,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Offering, so that an aggregate of 60,000,000 Shares will be available under the Hong Kong Public Offering, representing 30% of the Offer Shares initially available under the Global Offering;

(b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 60,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Offering, so that an aggregate of 80,000,000 Shares will be available under the Hong Kong Public Offering, representing 40% of the Offer Shares initially available under the Global Offering;

(c) represents 100 times or more of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 80,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Offering, so that an aggregate of 100,000,000 Shares will be available under the Hong Kong Public Offering, representing 50% of the Offer Shares initially available under the Global Offering; and

(d) in each of the above cases, the number of Shares allocated to the International Offering will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

In all cases, the additional Shares re-allocated to the Hong Kong Public Offering will be allocated, if applicable, equally between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the absolute discretion to re-allocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offering to the International Offering in such number as it deems appropriate to satisfy the demand under the International Offering. If the International Offering is not fully subscribed, the Sole Global Coordinator has the authority to re-allocate all or any unsubscribed International Offer Shares originally included in the International Offering to the Hong Kong Public Offering, in such number as it deems appropriate provided that there is sufficient demand under the Hong Kong Public Offering to take up such unsubscribed International Offer Shares. Details of any re-allocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement, which is expected to be made on Thursday, 9 November 2017.

STABILISATION ACTION

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 new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activities aimed at reducing the market price are prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as stabilising manager, or any person acting for it, (for itself and on behalf of the Underwriters and not as agent for our Company) may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Sole Global Coordinator to conduct any such stabilisation action which, if commenced, may be discontinued at any time at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 30,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering (the "**Stabilisation Period**"). The Stabilisation Period is expected to expire on Sunday, 3 December 2017 and that after this date, when no further stabilising action may be taken, demand for our Shares, and therefore its price, could fall.

During the Stabilisation Period, the Sole Global Coordinator as stabilising manager or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Sole Global Coordinator as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Sole Global Coordinator may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Sole Global Coordinator will maintain such a position during the Stabilisation Period, are at the sole discretion of the Sole Global Coordinator and is uncertain. In the event that the Sole Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation 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 the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Sole Global Coordinator, as the stabilising manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Sole Global Coordinator will enter into the Stock Borrowing Agreement with Asian Glory whereby the Sole Global Coordinator may borrow up to 30,000,000 Shares from Asian Glory, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing

Agreement. The Stock Borrowing Agreement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

– the Stock Borrowing Agreement will only be effected by the Sole Global Coordinator as stabilising manager for covering any short position arising from over-allocations under the International Offering prior to the exercise of the Over-allotment Option;

– the maximum number of Shares to be borrowed from Asian Glory will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

– the same number of Shares so borrowed must be returned to Asian Glory or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;

– borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and

– no payments will be made to Asian Glory in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 10 November 2017 it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 10 November 2017. The Shares will be traded in board lots of 2,000 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 service 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 its discretion and on any conditions it thinks 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.

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;
- a close associate (as defined in the Listing Rules) of any of the above;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

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 Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 2017 from:

(i) the following office of the Sole Bookrunner:
Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Dex Voeux Road Central
Hong Kong

(ii) any of the branches of The Bank of East Asia, Limited:

District	Branch name	Branch address
Hong Kong Island	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
Kowloon	Hoi Yuen Road Branch	Unit 1, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong
New Territories	Tai Wai Branch	Cheung Fung Mansion, 16-18 Tai Wai Road, Shatin

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 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 "**The Bank of East Asia (Nominees) Limited – Kidsland 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:

- Tuesday, 31 October 2017 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 1 November 2017 – 9:00 a.m. to 5:00 p.m.
- Thursday, 2 November 2017 – 9:00 a.m. to 5:00 p.m.
- Friday, 3 November 2017 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 on Friday, 3 November 2017, the last application day or such later time as described in "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 its 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;

(ii) agree to comply with COWUMPO and the Articles;

(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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, the Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(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, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters nor any of their respective officers or advisors 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 **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 the "– 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. 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 Service

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 Tuesday, 31 October 2017 until 11:30 a.m. on Friday, 3 November 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 3 November 2017 or such later time specified under "– 10. Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, 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** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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 COWUMPO

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 COWUMPO.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for 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 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 Centre
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.

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 Offering;

- (if the 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, the 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;

- agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or its respective advisors 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 COWUMPO 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 COWUMPO and the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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 our Company or any other person in respect of the things mentioned below:

- instructed and authorised 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 authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised 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 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 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:

- Tuesday, 31 October 2017 – 9:00 a.m. to 8:30 p.m.[(1)]
- Wednesday, 1 November 2017 – 8:00 a.m. to 8:30 p.m.[(1)]
- Thursday, 2 November 2017 – 8:00 a.m. to 8:30 p.m.[(1)]
- Friday, 3 November 2017 – 8:00 a.m.[(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 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 Friday, 3 November 2017, the last application day or such later time as described in "– 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 COWUMPO

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 COWUMPO.

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 banks, the Sole Global Coordinator, the Underwriters and any of their respective advisors 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, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner 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.

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/CCASS 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 Friday, 3 November 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).

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 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 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, see the section headed "Structure and Conditions of the Global Offering – Pricing and Allocation".

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 Friday, 3 November 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 Friday, 3 November 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", 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 Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 9 November 2017 on our Company's website at **www.kidslandholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

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.kidslandholdings.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m., Thursday, 9 November 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., Thursday, 9 November 2017 to 12:00 midnight, Wednesday, 15 November 2017;
- by telephone enquiry line by calling 36918488 between 9:00 a.m. and 6:00 p.m. from Thursday, 9 November 2017 to Tuesday, 14 November 2017 (excluding Saturday, Sunday and Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 9 November 2017 to Monday, 13 November 2017 at all the receiving bank branches.

If our Company accepts your offer to subscribe (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 COWUMPO gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

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;
- 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$2.2 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 "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 Thursday, 9 November 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).

Subject to arrangements for dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 9 November 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 Friday, 10 November 2017 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section 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 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 Thursday, 9 November 2017 or such other date as is 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 fewer 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 Thursday, 9 November 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 fewer than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 9 November 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 Thursday, 9 November 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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 "– 11. 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 Thursday, 9 November 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 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 Thursday, 9 November 2017, or such other date as is 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 fewer 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 Thursday, 9 November 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.

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 Thursday, 9 November 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 "– 11. Publication of Results" above on Thursday, 9 November 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 9 November 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 Thursday, 9 November 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 Thursday, 9 November 2017.

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 advisor 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, prepared for inclusion in this prospectus, received from the independent joint reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and CHENG & CHENG LIMITED, Certified Public Accountants, Hong Kong.

Deloitte. 德勤 CHENG & CHENG LIMITED Certified Public Accountants 鄭鄭會計師事務所有限公司

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KIDSLAND INTERNATIONAL HOLDINGS LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Kidsland International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-50, which comprises the combined statements of financial position as at 31 December 2014, 2015 and 2016 and 30 April 2017, the statement of financial position of the Company as at 30 April 2017 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the three years ended 31 December 2016 and the four months ended 30 April 2017 (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-50 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 October 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 (the "Stock Exchange").

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 preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 (the "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 accountants' 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 accountants consider 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 preparation and presentation set out in note 2 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 of the Company, 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 accountants' report, a true and fair view of the Group's financial position as at 31 December, 2014, 2015 and 2016 and 30 April 2017, of the Company's financial position as at 30 April 2017, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the four months ended 30 April 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-4 as were considered necessary.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 October 2017

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong
31 October 2017

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on consolidated financial statements of Kidsland Holdings Limited ("Kidsland Holdings") and its subsidiaries for the Track Record Period, consolidated financial statements of Silverkids Inc. ("Silverkids") and its subsidiaries for the Track Record Period and the management accounts of the Company for the period from 26 April 2017 to 30 April 2017 (the "Underlying Financial Statements"). These consolidated financial statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollar (HK$) and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

HISTORICAL FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December 2014 HK$'000	2015 HK$'000	2016 HK$'000	Four months ended 30 April 2016 HK$'000 (Unaudited)	2017 HK$'000
Revenue	6	1,324,649	1,561,291	1,638,374	498,979	566,719
Cost of goods sold		(679,970)	(777,132)	(820,584)	(263,326)	(288,001)
Gross profit		644,679	784,159	817,790	235,653	278,718
Other income	7	21,651	25,679	20,374	6,467	5,035
Other gains and losses	8	(5,650)	(10,265)	1,256	1,911	(2,342)
Selling and distribution expenses		(493,952)	(612,224)	(648,808)	(194,554)	(216,387)
General and administrative expenses		(39,274)	(53,859)	(64,443)	(20,757)	(27,788)
Listing expenses		–	–	(8,525)	(1,605)	(3,001)
Profit before tax		127,454	133,490	117,644	27,115	34,235
Income tax expense	9	(26,807)	(24,348)	(27,658)	(6,985)	(8,658)
Profit for the year/period	10	100,647	109,142	89,986	20,130	25,577
Other comprehensive income (expense)						
Item that will not be reclassified to profit or loss						
Exchange differences arising from translation of functional currency to presentation currency		4,107	(23,694)	(31,547)	(5,800)	(7,420)
Item that may be reclassified subsequently to profit or loss						
Exchange differences arising from translation of foreign operations		(44)	1,145	1,164	4	1
Other comprehensive income (expense) for the year/period, net of income tax		4,063	(22,549)	(30,383)	(5,796)	(7,419)
Total comprehensive income for the year/period		104,710	86,593	59,603	14,334	18,158
Profit for the year/period attributable to:						
Owners of the Company		96,238	106,559	89,200	20,242	24,057
Non-controlling interest		4,409	2,583	786	(112)	1,520
		100,647	109,142	89,986	20,130	25,577
Total comprehensive income for the year/period attributable to:						
Owners of the Company		100,375	84,365	59,281	14,405	16,564
Non-controlling interest		4,335	2,228	322	(71)	1,594
		104,710	86,593	59,603	14,334	18,158

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2014 HK$'000	2015 HK$'000	2016 HK$'000	As at 30 April 2017 HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	*15*	26,995	35,839	48,802	47,535
Rental deposits	*16*	13,960	18,995	16,159	19,781
Deferred tax assets	*21*	9,759	12,247	10,589	10,191
		50,714	67,081	75,550	77,507
Current assets					
Inventories	*17*	356,847	441,928	506,059	482,655
Trade receivables	*18*	115,520	116,137	141,039	119,328
Other receivables, deposits and prepayments	*18*	43,136	52,693	71,423	84,199
Amount due from a related party	*19*	114	107	101	–
Bank balances and cash	*20*	191,391	156,377	173,365	137,814
		707,008	767,242	891,987	823,996
Total assets		757,722	834,323	967,537	901,503
LIABILITIES					
Current liabilities					
Trade payables	*22*	221,269	215,851	254,759	179,014
Other payables and accruals	*22*	103,322	105,840	142,835	117,498
Amounts due to related parties	*19*	195,465	187,025	182,340	125,674
Current tax liabilities		14,795	11,454	16,588	2,508
		534,851	520,170	596,522	424,694
Net current assets		172,157	247,072	295,465	399,302
Total assets less current liabilities		222,871	314,153	371,015	476,809
Non-current liability					
Provision for reinstatement costs	*22*	6,626	11,315	8,574	7,739
Net assets		216,245	302,838	362,441	469,070
EQUITY					
Owners of the Company					
Share capital	*23*	–	–	–	–
Reserves		211,910	296,275	355,556	460,591
		211,910	296,275	355,556	460,591
Non-controlling interest	*31*	4,335	6,563	6,885	8,479
Total equity		216,245	302,838	362,441	469,070

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	**As at 30 April 2017** *HK$'000*
ASSET		
Current Asset		
Other receivables, deposits and prepayments		5,379
LIABILITIES		
Current liabilities		
Accruals		4,710
Amount due to a subsidiary	*19*	3,760
		8,470
Total asset less current liabilities		(3,091)
EQUITY		
Share capital	*23*	–
Accumulated loss	*23*	(3,091)
Total equity		(3,091)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Owners of the Company							
	Share capital HK$'000	Statutory reserve HK$'000 (Note a)	Capital reserve HK$'000 (Note b)	Translation reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2014	–	2,416	–	2,247	106,872	111,535	–	111,535
Profit for the year	–	–	–	–	96,238	96,238	4,409	100,647
Other comprehensive income (expense) for the year	–	–	–	4,137	–	4,137	(74)	4,063
Total comprehensive income for the year	–	–	–	4,137	96,238	100,375	4,335	104,710
Transfer	–	502	–	–	(502)	–	–	–
At 31 December 2014	–	2,918	–	6,384	202,608	211,910	4,335	216,245
Profit for the year	–	–	–	–	106,559	106,559	2,583	109,142
Other comprehensive expense for the year	–	–	–	(22,194)	–	(22,194)	(355)	(22,549)
Total comprehensive (expense) income for the year	–	–	–	(22,194)	106,559	84,365	2,228	86,593
Transfer	–	222	–	–	(222)	–	–	–
At 31 December 2015	–	3,140	–	(15,810)	308,945	296,275	6,563	302,838
Profit for the year	–	–	–	–	89,200	89,200	786	89,986
Other comprehensive expense for the year	–	–	–	(29,919)	–	(29,919)	(464)	(30,383)
Total comprehensive (expense) income for the year	–	–	–	(29,919)	89,200	59,281	322	59,603
Transfer	–	211	–	–	(211)	–	–	–
At 31 December 2016	–	3,351	–	(45,729)	397,934	355,556	6,885	362,441
Profit for the period	–	–	–	–	24,057	24,057	1,520	25,577
Other comprehensive (expense) income for the period	–	–	–	(7,493)	–	(7,493)	74	(7,419)
Total comprehensive (expense) income for the period	–	–	–	(7,493)	24,057	16,564	1,594	18,158
Deemed contribution from a shareholder *(note b)*	–	–	88,471	–	–	88,471	–	88,471
At 30 April 2017	–	3,351	88,471	(53,222)	421,991	460,591	8,479	469,070
(Unaudited) At 1 January 2016	–	3,140	–	(15,810)	308,945	296,275	6,563	302,838
Profit for the period	–	–	–	–	20,242	20,242	(112)	20,130
Other comprehensive (expense) income for the period	–	–	–	(5,837)	–	(5,837)	41	(5,796)
Total comprehensive (expense) income for the period	–	–	–	(5,837)	20,242	14,405	(71)	14,334
At 30 April 2016	–	3,140	–	(21,647)	329,187	310,680	6,492	317,172

Notes:

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

(b) This represents the waiver of an amount due to Lovable Products Trading Limited ("Lovable Products") of HK$88,471,000 as at 26 April 2017 which is accounted for as deemed contribution from a shareholder.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Four months ended 30 April	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating activities					
Profit before tax	127,454	133,490	117,644	27,115	34,235
Adjustments for:					
Allowance for inventories (reversal of allowance for inventories), net	5,706	4,691	(3,234)	–	4,632
(Reversal of allowance for doubtful debts) allowance for doubtful debts, net	(2,014)	2,922	(2,107)	(342)	688
Depreciation of property, plant and equipment	12,221	17,074	22,410	6,902	9,660
Interest income	(388)	(660)	(429)	(94)	(153)
Net (gain) loss on disposal of property, plant and equipment	(601)	2	13	–	–
Net unrealised exchange loss (gain)	5,883	2,177	(362)	(1,174)	1,076
Operating cash flows before movements in working capital	148,261	159,696	133,935	32,407	50,138
(Increase) decrease in rental deposits	(5,359)	(6,932)	1,222	1,145	(3,454)
(Increase) decrease in inventories	(105,110)	(120,981)	(93,134)	(25,455)	21,880
(Increase) decrease in trade receivables	(15,051)	(13,596)	(31,624)	(16,634)	21,830
(Increase) decrease in other receivables, deposits and prepayments	(13,700)	(12,793)	(23,056)	(9,948)	(12,337)
Increase (decrease) in trade payables	92,518	9,827	50,600	(2,355)	(81,244)
Increase (decrease) in other payables and accruals	33,800	10,146	34,765	22,819	(30,102)
(Decrease) increase in amounts due to related parties	(61,768)	(12,956)	8,972	(3,753)	(2,494)
Cash generated from (used in) operations	73,591	12,411	81,680	(1,774)	(35,783)
Hong Kong Profits Tax paid	(794)	(1,253)	(1,875)	–	–
PRC Enterprise Income Tax ("EIT") paid	(18,743)	(28,916)	(18,644)	(5,325)	(23,246)
Net cash from (used in) operating activities	54,054	(17,758)	61,161	(7,099)	(59,029)
Investing activities					
Purchase of property, plant and equipment	(18,894)	(23,764)	(32,023)	(6,980)	(7,621)
Interest received	388	660	429	94	153
Proceeds from disposal of property, plant and equipment	990	–	–	–	–
Repayment from a related party	–	–	–	–	102
Net cash used in investing activities	(17,516)	(23,104)	(31,594)	(6,886)	(7,366)
Financing activities					
Advances from related parties	38,774	21,060	212	1,681	34,709
Advances from non-controlling interest	12,001	–	–	–	–
Repayments to related parties	(3,322)	(4,998)	(1,638)	(1,846)	(2,164)
Net cash from (used in) financing activities	47,453	16,062	(1,426)	(165)	32,545
Net increase (decrease) in cash and cash equivalents	83,991	(24,800)	28,141	(14,150)	(33,850)
Cash and cash equivalents at beginning of the year/period	107,830	191,391	156,377	156,377	173,365
Effect of foreign exchange rate changes	(430)	(10,214)	(11,153)	(822)	(1,701)
Cash and cash equivalents at end of the year/period, represented by:					
Bank balance and cash	191,391	156,377	173,365	141,405	137,814

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

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

The Company's ultimate holding company is Asian Glory Holdings Limited, a company incorporated in the British Virgin Island (the "BVI"). Prior to 29 May 2017, the Company's immediate holding company was Lovable International Holdings Limited ("Lovable International Holdings"), a company incorporated in the BVI. Since 29 May 2017, the Company's immediate holding company is Asian Glory Holdings Limited. The Company's ultimate controlling party is Mr. Lee Ching Yiu ("Mr. Lee"), who controls the Company mainly through Asian Glory prior to the listing of the Company's shares on the Mainboard of the Stock Exchange (the "Listing").

The addresses of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the Prospectus.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 30.

The functional currency of the Company is Renminbi ("RMB") while the Historical Financial Information is presented in HK$, which the management of the Group considered is more beneficial for the users of the Historical Financial Information as the Company proposes to list its shares on the Stock Exchange.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

Prior to a group reorganisation as more fully explained in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus (the "Reorganisation"), Kidsland Holdings and Silverkids, the holding companies of the companies now comprising the Group, were controlled by Lovable International Holdings. Kidsland Holdings and Silverkids were owned by Lovable International Holdings as to 100% and 58%, respectively. In the preparation for the Listing, the companies now comprising the Group underwent the Reorganisation. On 29 May 2017, the Reorganisation was executed to the extent that the Company, had been interspersed between the Lovable International Holdings and Kidsland Holdings and Silverkids. The Group, comprising the Company, Kidsland Holdings and Silverkids resulting from the Reorganisation has always been under the common control of Lovable International Holdings throughout the Track Record Period, regardless of the actual dates when they formally and legally became subsidiaries of the Company. Therefore, the reorganisation is considered as a business combination under common control and accounted for under merger accounting as mentioned below.

The combined statements of profit or loss and other comprehensive income and combined statements of cash flows which include the financial performance and cash flows of the companies now comprising the Group for the Track Record Period have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

The combined statements of financial position at 31 December 2014, 2015 and 2016 and 30 April 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective date of establishment/incorporation of the relevant entity, where appropriate.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied HKFRSs which are effective for the Group's annual accounting periods beginning on 1 January 2017 consistently throughout the Track Record Period.

New and amendments to HKFRSs in issue but not yet effective

At the date of this report, the following new and amendments to HKFRSs have been issued which are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle except for amendments to HKFRS 12[1]

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

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

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

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

Based on the Group's financial instruments and risk management policies as at 30 April 2017, application of HKFRS 9 in the future may have an impact on the measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimation of the financial effect until the directors of the Company complete a detailed review.

HKFRS 15 Revenue from Contracts with Customers

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

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

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 April 2017, the Group has non-cancellable operating lease commitments of HK$187,392,000, of which HK$153,836,000 has an original lease term for over 1 year. HKAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitment in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for leases of low value assets upon the application of HKFRS 16. Detailed calculations for the right-of-use asset and corresponding liability are yet to perform by the directors of the Company. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of other new standards and amendments will have no material impact on the financial statements of the Group in future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

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

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

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

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

The principal accounting policies are set out below.

Basis of combination

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Merger accounting for business combination involving business under common control

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

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

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

Revenue recognition

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

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

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

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

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

Supplier rebates

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

Foreign currencies

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

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

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

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

Leasing

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

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

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

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

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

Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets under HKAS 36 to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Government grants

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

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

Retirement benefit costs

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

Taxation

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

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

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

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

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

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

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

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

Inventories

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

Provisions

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

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

Financial instruments

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

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

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

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

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

Loans and receivables

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

Estimated allowance for inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a realisable value that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. If the realisable value of inventories of the Group becomes much lower than its carrying amount subsequently, additional allowance may be required.

As at 31 December 2014, 2015 and 2016 and 30 April 2017, the carrying amounts of inventories were HK$356,847,000, HK$441,928,000, HK$506,059,000 and HK$482,655,000, respectively (net of allowance for inventories of HK$27,554,000, HK$30,449,000, HK$25,413,000 and HK$21,793,000, respectively). Details of the Group's inventories are set out in note 17.

Estimated allowance for trade receivables

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

As at 31 December 2014, 2015 and 2016 and 30 April 2017, the carrying amount of trade receivables were HK$115,520,000, HK$116,137,000, HK$141,039,000 and HK$119,328,000, respectively (net of allowance for doubtful debts of HK$1,529,000, HK$4,246,000, HK$1,958,000 and HK$2,667,000, respectively). Details of the Group's trade receivables are set out in note 18.

Estimated supplier rebates

The Group is entitled to supplier rebates which were recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract. The management of the Group has based on its best estimate of both expected entitlement earned up and the probability of receipt. When the expected entitlement earned up and the probability of receipt are higher or lower than expected and where events or changes in circumstances indicate that the amount of accrued supplier rebates may not be adequate or may be excessive, such difference will impact the carrying values and supplier rebates received/receivable in the years/periods in which such estimate has been changed. The carrying amount as at 30 April 2017 of supplier rebates was HK$12,535,000. Supplier rebates for each of the three years ended 31 December 2016, which do not involve material estimation uncertainty, were HK$23,365,000, HK$28,589,000 and HK$31,879,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, the chief operating decision maker (the "CODM"), that are used to make strategic decisions. The Group's operating segments are classified as (i) sales of toy products; and (ii) sales of infant products, which are based on the nature of the operations carried out by the Group.

Segment revenues and results

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

For the year ended 31 December 2014

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
Revenue	1,208,706	115,943	1,324,649
Segment gross profit	581,161	63,518	644,679
Segment profit	600,906	63,544	664,450
Unallocated income			1,882
Unallocated expenses			(533,228)
Unallocated other gains and losses			(5,650)
Profit before tax			127,454

For the year ended December 2015

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
Revenue	1,432,082	129,209	1,561,291
Segment gross profit	710,947	73,212	784,159
Segment profit	732,121	74,099	806,220
Unallocated income			3,620
Unallocated expenses			(666,085)
Unallocated other gains and losses			(10,265)
Profit before tax			133,490

For the year ended 31 December 2016

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

For the four months ended 30 April 2016 (Unaudited)

	Sales of toy products	Sales of infant products	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue	455,190	43,789	498,979
Segment gross profit	212,968	22,685	235,653
Segment profit	216,943	17,439	234,382
Unallocated income			739
Unallocated expenses			(209,917)
Unallocated other gains and losses			1,911
Profit before tax			27,115

For the four months ended 30 April 2017

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
Revenue	513,678	53,041	566,719
Segment gross profit	247,035	31,683	278,718
Segment profit	246,298	28,124	274,422
Unallocated income			275
Unallocated expenses			(238,120)
Unallocated other gains and losses			(2,342)
Profit before tax			34,235

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

Segment assets and liabilities

	Sales of toy products HK$'000	Sales of infant products HK$'000	Total HK$'000
As at 31 December 2014			
Segment assets	272,099	84,748	356,847
Unallocated assets			400,875
Combined total assets			757,722
Segment liabilities	199,090	22,179	221,269
Unallocated liabilities			320,208
Combined total liabilities			541,477

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
As at 31 December 2015			
Segment assets	345,273	96,655	441,928
Unallocated assets			392,395
Combined total assets			834,323
Segment liabilities	187,212	28,639	215,851
Unallocated liabilities			315,634
Combined total liabilities			531,485

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
As at 31 December 2016			
Segment assets	404,895	101,164	506,059
Unallocated assets			461,478
Combined total assets			967,537
Segment liabilities	222,294	32,465	254,759
Unallocated liabilities			350,337
Combined total liabilities			605,096

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
As at 30 April 2017			
Segment assets	379,991	102,664	482,655
Unallocated assets			406,313
Combined total assets			888,968
Segment liabilities	166,728	12,286	179,014
Unallocated liabilities			253,419
Combined total liabilities			432,433

For the purposes of monitoring segment performance and allocating resources between segments, only inventories are allocated to operating segments and other assets used jointly by reportable segments, and only trade payables are allocated to operating segments and other liabilities for which reportable segments are jointly liable.

Geographical information

The Group's operations are mainly located in the PRC.

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

	Revenue from external customers					Non-current assets*			
	For the year ended 31 December			For the four months ended 30 April		As at 31 December			As at 30 April
	2014	2015	2016	2016	2017	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PRC	1,324,649	1,561,291	1,606,098	498,979	548,775	26,995	35,839	42,683	41,756
Hong Kong	–	–	32,276	–	17,944	–	–	6,119	5,779
	1,324,649	1,561,291	1,638,374	498,979	566,719	26,995	35,839	48,802	47,535

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

Information about major customers

There were no customer individually contributing over 10% of the total revenue during the Track Record Period.

7. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest income	388	660	429	94	153
Promotion income from brand owners	19,769	22,059	15,575	5,728	4,760
Government grants (Note)	1,237	2,675	2,684	–	–
Sundries	257	285	1,686	645	122
	21,651	25,679	20,374	6,467	5,035

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

8. OTHER GAINS AND LOSSES

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net exchange (loss) gain	(8,080)	(7,428)	(915)	1,550	(2,245)
Net gain (loss) on disposal of property, plant and equipment	601	(2)	(13)	–	–
Reversal of allowance for doubtful debts (allowance for doubtful debts), net	2,014	(2,922)	2,107	342	(688)
Reversal of reinstatement costs	32	186	98	29	613
Others	(217)	(99)	(21)	(10)	(22)
	(5,650)	(10,265)	1,256	1,911	(2,342)

9. INCOME TAX EXPENSE

	Year ended 31 December			Four months ended 30 April	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current tax charge					
Hong Kong Profits Tax	224	1,209	1,613	311	198
PRC withholding taxes	3,726	5,829	4,330	1,270	1,026
PRC EIT	25,712	20,414	19,924	5,495	6,930
	29,662	27,452	25,867	7,076	8,154
(Over)underprovision in prior years/periods					
Hong Kong Profits Tax	(192)	79	873	–	–
Deferred tax *(note 21)*					
Current year/period (credit) charge	(2,663)	(3,183)	918	(91)	504
	26,807	24,348	27,658	6,985	8,658

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the Track Record Period.

Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the BVI.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law effective from 1 January 2008, the statutory income tax rate of the PRC subsidiaries is 25% for the Track Record Period.

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

Details of the deferred taxation are set out in note 21.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before tax	127,454	133,490	117,644	27,115	34,235
Tax at domestic income tax rate of 25%	31,864	33,373	29,411	6,779	8,559
Tax effect of expenses not deductible for tax purposes	3,464	2,027	3,153	899	854
Tax effect of income not taxable for tax purposes	(3)	(2)	(224)	(5)	(176)
(Over)underprovision in prior years	(192)	79	873	–	–
Tax effect of tax losses not recognised	1,023	1,208	1,090	336	86
PRC withholding taxes	3,726	5,829	4,330	1,270	1,026
Utilisation of tax losses previously not recognised	(1,393)	(110)	(758)	–	(109)
Utilisation of deductible temporary difference previously not recognised	(2,663)	(3,183)	–	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(9,019)	(14,873)	(11,135)	(2,294)	(1,582)
Others	–	–	918	–	–
Income tax expense	26,807	24,348	27,658	6,985	8,658

10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period is arrived at after charging (crediting):					
Directors' remuneration *(note 11)*	682	719	657	196	554
Other staff costs	114,755	142,112	162,172	48,902	54,458
Retirement benefit schemes contributions for other staff	30,326	41,034	36,723	13,026	12,487
Total staff costs	145,763	183,865	199,552	62,124	67,499
Depreciation of property, plant and equipment	12,221	17,074	22,410	6,902	9,660
Operating lease rentals in respect of					
– rented premises of warehouse (included in selling and distribution expenses)	10,648	15,950	15,928	5,248	5,553
– rented premises of office (included in general and administrative expenses)	8,072	10,087	10,456	3,692	4,613
– retail shops (included in selling and distribution expenses) *(Note i)*	55,917	78,056	95,279	29,317	36,647
– consignment counters (included in selling and distribution expenses)	5,009	5,715	5,147	2,002	1,619
	79,646	109,808	126,810	40,259	48,432
Auditor's remuneration	36	41	116	39	39
Allowance for inventories (reversal of allowance for inventories), net	5,706	4,691	(3,234)	–	4,632

Notes:

(i) The amounts include contingent rents of HK$11,245,000, HK$12,813,000, HK$16,647,000, HK$6,506,000 (unaudited) and HK$8,330,000 for the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2016 and 2017, respectively.

(ii) During the year ended 31 December 2016, there was an increase in the net realisable value of certain finished goods due to increase in demand. As a result, reversals of write-down of HK$3,234,000 were recognised and included in cost of goods sold in the relevant year.

(iii) For the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2016 (unaudited) and 2017, cost of inventories recognised as an expense represents cost of goods sold as shown in the combined statements of profit or loss and other comprehensive income.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Mr. Lee, Dr. Lo Wing Yan, William and Ms. Zhong Mei were appointed as directors on 26 April 2017 and re-designated as executive directors on 24 May 2017. Mr. Du Ping and Ms. Duan Lanchun were appointed as non-executive directors on 24 May 2017 and 31 August 2017, respectively. Mr. Lee is also chief executive officer since 14 June 2017. Details of the emoluments paid or payable to the directors and chief executive of the Company (including emoluments for services as directors or senior management of the group entities prior to becoming directors of the Company) during the Track Record Period are as follows:

(a) Directors and the chief executive

	Directors' Fees	Salaries and allowances	Discretionary bonus	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
For the year ended 31 December 2014					
Executive directors:					
Mr. Lee	–	–	–	–	–
Dr. Lo Wing Yan, William	–	–	–	–	–
Ms. Zhong Mei	–	500	125	57	682
Non-executive directors:					
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
	–	500	125	57	682
For the year ended 31 December 2015					
Executive directors:					
Mr. Lee	–	–	–	–	–
Dr. Lo Wing Yan, William	–	–	–	–	–
Ms. Zhong Mei	–	538	120	61	719
Non-executive directors:					
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
	–	538	120	61	719
For the year ended 31 December 2016					
Executive directors:					
Mr. Lee	–	–	–	–	–
Dr. Lo Wing Yan, William	–	–	–	–	–
Ms. Zhong Mei	–	510	86	61	657
Non-executive directors:					
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
	–	510	86	61	657

	Directors' Fees *HK$'000*	Salaries and allowances *HK$'000*	Discretionary bonus *HK$'000* *(Note)*	Retirement benefit schemes contributions *HK$'000*	Total *HK$'000*
For the four months ended 30 April 2016 (Unaudited)					
Executive directors:					
Mr. Lee	–	–	–	–	–
Dr. Lo Wing Yan, William	–	–	–	–	–
Ms. Zhong Mei	–	176	–	20	196
Non-executive directors:					
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
	–	176	–	20	196
For the four months ended 30 April 2017					
Executive directors:					
Mr. Lee	–	–	–	–	–
Dr. Lo Wing Yan, William	–	–	–	–	–
Ms. Zhong Mei	–	534	–	20	554
Non-executive directors:					
Mr. Du Ping	–	–	–	–	–
Ms. Duan Lanchun	–	–	–	–	–
	–	534	–	20	554

Note: Discretionary bonus is determined based on individual performance.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

No independent non-executive directors were appointed by the Company during the Track Record Period.

Subsequently, Mr. Cheng Yuk Wo, Dr. Lam Lee G. and Mr. Huang Lester Garson were appointed as independent non-executive directors of the Company on 20 October 2017.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one, one, one and one was a director of the Company for each of the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2016 (unaudited) and 2017 whose emoluments are included in the disclosures above. The emoluments of the remaining individuals are as follows:

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* **(Unaudited)**	*HK$'000*
Salaries and allowances	1,723	1,821	1,814	586	1,189
Discretionary bonus	272	293	309	–	–
Retirement benefit schemes contributions	136	144	230	53	64
	2,131	2,258	2,353	639	1,253

Their emoluments were within the following bands:

	Year ended 31 December			Four months ended 30 April	
	2014	**2015**	**2016**	**2016**	**2017**
	Number of employees	*Number of employees*	*Number of employees*	*Number of employees* **(Unaudited)**	*Number of employees*
Nil to HK$1,000,000	4	4	4	4	4

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

13. DIVIDENDS

No dividend was paid or declared by the Company since its incorporation or by any group entities for the year ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2016 and 2017.

14. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Group and the result of the Group for the Track Record Period that is prepared on a combined basis as set out in note 2.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 January 2014	30,166	12,362	2,133	44,661
Exchange differences	(40)	(37)	(15)	(92)
Additions	19,739	2,605	461	22,805
Disposals/write-off	(32)	–	(2,117)	(2,149)
At 31 December 2014	49,833	14,930	462	65,225
Exchange differences	(3,787)	(1,087)	(27)	(4,901)
Additions	22,373	5,553	–	27,926
Disposals/write-off	(186)	(61)	–	(247)
At 31 December 2015	68,233	19,335	435	88,003
Exchange differences	(5,571)	(1,342)	(27)	(6,940)
Additions	34,315	3,794	–	38,109
Disposals/write-off	(664)	(220)	–	(884)
At 31 December 2016	96,313	21,567	408	118,288
Exchange differences	928	210	4	1,142
Additions	6,816	1,145	–	7,961
Write-off	(613)	–	–	(613)
At 30 April 2017	103,444	22,922	412	126,778
ACCUMULATED DEPRECIATION				
At 1 January 2014	17,920	8,479	1,437	27,836
Exchange differences	(28)	(28)	(11)	(67)
Charge for the year	10,054	1,865	302	12,221
Disposals/write-off	(32)	–	(1,728)	(1,760)
At 31 December 2014	27,914	10,316	–	38,230
Exchange differences	(2,210)	(681)	(4)	(2,895)
Charge for the year	14,870	2,092	112	17,074
Disposals/write-off	(186)	(59)	–	(245)
At 31 December 2015	40,388	11,668	108	52,164
Exchange differences	(3,355)	(852)	(10)	(4,217)
Charge for the year	19,478	2,827	105	22,410
Disposals/write-off	(664)	(207)	–	(871)
At 31 December 2016	55,847	13,436	203	69,486
Exchange differences	572	136	2	710
Charge for the period	8,467	1,159	34	9,660
Write-off	(613)	–	–	(613)
At 30 April 2017	64,273	14,731	239	79,243
CARRYING VALUES				
At 31 December 2014	21,919	4,614	462	26,995
At 31 December 2015	27,845	7,667	327	35,839
At 31 December 2016	40,466	8,131	205	48,802
At 30 April 2017	39,171	8,191	173	47,535

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

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

16. RENTAL DEPOSITS

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

17. INVENTORIES

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Merchandise stock for resale	356,847	441,928	506,059	482,655

18. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	117,049	120,383	142,997	121,995
Less: Allowance for doubtful debts	(1,529)	(4,246)	(1,958)	(2,667)
	115,520	116,137	141,039	119,328
Other receivables, deposits and prepayments				
– Deposits	17,185	23,152	28,719	30,118
– Deferred listing expenses	–	–	2,842	3,827
– Prepayments for purchase of merchandise stock for resale and expenses	11,190	12,169	20,265	19,265
– Promotion income receivable from brand owners	4,738	6,583	2,614	189
– Other taxes recoverable	8,980	9,382	14,703	14,420
– Others	1,043	1,407	2,280	3,845
– Rebate receivables from suppliers	–	–	–	12,535
	43,136	52,693	71,423	84,199
	158,656	168,830	212,462	203,527

The Group's retail sales are made through its self-operated retail network comprising stand-alone retail shops and consignment counters in department stores. The Group also sells directly to retailers in the PRC. Sales at self-operated retail shops in the PRC are transacted either by cash, credit cards, Alipay or WeChat Pay in which the settlement period is normally within 0-2 days from transaction date. For sales made at consignment counters, the department stores make collection from the ultimate customers and then repay the balance after deducting the consignment expenses to the Group. The credit period granted to department stores ranges from 30 days to 180 days.

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

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

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	96,081	94,034	108,759	84,269
31 to 60 days	10,488	9,461	16,673	17,416
61 to 90 days	3,347	4,739	8,066	9,854
91 to 180 days	4,470	5,766	5,473	5,900
181 to 365 days	1,127	1,702	988	1,889
Over 365 days	7	435	1,080	–
	115,520	116,137	141,039	119,328

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

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amounts of HK$24,391,000, HK$29,824,000, HK$38,050,000 and HK$41,565,000 as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively, which are past due at end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. In the opinion of the directors, the trade receivables which are past due but not impaired are considered to be collectable based on historical experience and subsequent settlement.

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

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	7,394	9,502	9,213	11,711
31 to 60 days	8,571	8,317	13,902	12,859
61 to 90 days	2,822	4,204	7,448	9,267
91 to 180 days	4,470	5,664	5,419	5,839
181 to 365 days	1,127	1,702	988	1,889
Over 365 days	7	435	1,080	–
	24,391	29,824	38,050	41,565

Movements in the allowance for doubtful debts

	Year ended 31 December 2014 HK$'000	2015 HK$'000	2016 HK$'000	Four months ended 30 April 2017 HK$'000
Balance at beginning of the year/period	3,564	1,529	4,246	1,958
Impairment loss recognised	870	3,402	656	1,593
Reversal of impairment loss recognised	(2,884)	(480)	(2,763)	(905)
Exchange adjustments	(21)	(205)	(181)	21
Balance at end of the year/period	1,529	4,246	1,958	2,667

19. AMOUNTS DUE FROM (TO) RELATED PARTIES

The Group

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

	As at 31 December 2014 HK$'000	2015 HK$'000	2016 HK$'000	As at 30 April 2017 HK$'000
Amount due from a related company *(Note a)*	114	107	101	–
Amount due to Mr. Lee *(Note b)*	7,588	3,591	2,073	2,924
Amount due to immediate holding company *(Note b)*	16,024	14,385	13,214	11,182
Amounts due to related companies *(Note a)*	159,686	157,593	156,327	100,733
Amount due to non-controlling interest *(Note b)*	12,167	11,456	10,726	10,835
Amounts due to related parties	195,465	187,025	182,340	125,674

The amounts as at 30 April 2017 were subsequently settled or waived as further disclosed in note 33.

Notes:

(a)

Amount due from a related company	Nature of balance	As at 31 December 2014 HK$'000	2015 HK$'000	2016 HK$'000	As at 30 April 2017 HK$'000
東莞利法寶玩具製品有限公司	Non-trade	114	107	101	–

The related company is controlled by Mr. Lee, a director of the Company. The amount due from a related company is unsecured, interest-free and repayable on demand. The maximum balances outstanding for the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2017 were HK$114,000, HK$107,000, HK$101,000 and HK$101,000 respectively.

Amounts due to related companies	Nature of balances	As at 31 December 2014	2015	2016	As at 30 April 2017
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Land Smart Development Limited ("Land Smart")	Non-trade	5,270	6,751	6,726	8,429
Lovable Products	Non-trade	37,514	56,525	56,631	308
Lovable Products (Hong Kong) Limited	Trade	116,902	94,317	92,970	91,996
		159,686	157,593	156,327	100,733

The related companies are controlled by Mr. Lee, a director of the Company. The amounts are unsecured, interest-free and repayable on demand, except of the amounts HK$116,902,000, HK$94,317,000, HK$92,970,000 and HK$91,996,000 as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively, have a credit period of 90 days. The following is an aged analysis.

	As at 31 December 2014	2015	2016	As at 30 April 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Over 1 year	116,902	94,317	92,970	91,996

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

The Company

The amount due to a subsidiary is non-trade in nature, unsecured, interest-free and repayable on demand.

20. BANK BALANCES AND CASH

The Group's bank balances carry interest at prevailing market rates ranging from 0.001% to 0.5% per annum for the Track Record Period.

21. DEFERRED TAX ASSETS

The following is the major deferred tax assets recognised and movements thereon during the reporting periods:

	Accelerated tax depreciation *HK$'000*	Unrealised profit on inventory *HK$'000*	Provision for doubtful debts *HK$'000*	Allowance for inventories *HK$'000*	Tax losses *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2014	–	745	891	5,477	–	–	7,113
Credit (charge) to profit or loss for the year	–	1,740	(503)	1,426	–	–	2,663
Exchange adjustments	–	4	(6)	(15)	–	–	(17)
At 31 December 2014	–	2,489	382	6,888	–	–	9,759
Credit to profit or loss for the year	–	1,280	730	1,173	–	–	3,183
Exchange adjustments	–	(196)	(50)	(449)	–	–	(695)
At 31 December 2015	–	3,573	1,062	7,612	–	–	12,247
(Charge) credit to profit or loss for the year	(218)	417	(527)	(808)	218	–	(918)
Exchange adjustments	–	(245)	(45)	(450)	–	–	(740)
At 31 December 2016	(218)	3,745	490	6,354	218	–	10,589
(Charge) credit to profit or loss for the period	(132)	68	172	(969)	132	225	(504)
Exchange adjustments	–	38	5	63	–	–	106
At 30 April 2017	(350)	3,851	667	5,448	350	225	10,191

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the combined financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$156 million, HK$214 million, HK$274 million and HK$313 million as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2014, 2015, 2016 and 30 April 2017, the Group had unused tax losses of approximately HK$9,579,000, HK$10,549,000, HK$14,219,000 and HK$15,060,000 respectively, available to offset against future profits. Deferred tax assets have been recognised in respect of such losses of approximately HK$1,321,000 and HK$2,121,000 as at 31 December 2016 and 30 April 2017. No deferred tax asset has been recognised in respect of the remaining HK$9,579,000, HK$10,549,000, HK$12,898,000 and HK$12,939,000 as at 31 December 2014, 2015 and 2016 and 30 April 2017, respectively due to the unpredictability of future profit streams. At 31 December 2016 and 30 April 2017, the unrecognised tax losses of HK$2,880,000 and HK$3,402,000 may be carried forward indefinitely. The remaining unrecognised tax losses will expire in the following years/period.

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2017	584	941	941	460
2018	4,912	1,843	1,843	1,843
2019	4,083	4,083	1,185	1,185
2020	–	3,682	3,682	3,682
2021	–	–	2,367	2,367
	9,579	10,549	10,018	9,537

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	221,269	215,851	254,759	179,014
Other payables and accruals				
– Deposits received from customers	24,660	23,833	36,127	24,166
– Accrued expenses	21,775	24,424	39,042	24,090
– Provision for retirement benefit costs	31,525	41,349	43,443	48,843
– Provision for reinstatement costs	10,851	14,036	15,142	15,026
– Other taxes payable	19,871	12,899	16,321	11,195
– Others	1,266	614	1,334	1,917
	109,948	117,155	151,409	125,237
Less: non-current portion				
– Provision for reinstatement costs	(6,626)	(11,315)	(8,574)	(7,739)
	324,591	321,691	397,594	296,512

Movements in the provision for reinstatement costs

	Year ended 31 December			Four months ended 30 April
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	6,985	10,851	14,036	15,142
Provision for the year/period	3,910	4,162	2,186	340
Reversal for the year/period	(32)	(186)	(98)	(613)
Exchange adjustments	(12)	(791)	(982)	157
Balance at end of the year/period	10,851	14,036	15,142	15,026

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

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

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	138,711	119,107	167,980	115,384
31 to 60 days	80,720	74,927	77,601	50,395
61 to 90 days	1,696	18,442	8,999	9,729
Over 90 days	142	3,375	179	3,506
	221,269	215,851	254,759	179,014

23. SHARE CAPITAL AND RESERVE

The Group

For the purpose of this report, the capital of the Group represents the combined capital of the Company, Kidsland Holdings and Silverkids attributable to Lovable International Holdings, taking into account the respective dates of incorporation.

The Company

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

	Accumulated loss
	HK$'000
At 26 April 2017 (date of incorporation)	–
Loss and total comprehensive expense for the period	(3,091)
At 30 April 2017	(3,091)

24. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes amounts due to related parties disclosed in note 19, net of cash and cash equivalents, and equity attributable to owners of the Group, comprising issued share capital and reserves.

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

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
Financial assets				
Loans and receivables (including cash and cash equivalents)	343,951	322,758	364,277	323,610
Financial liabilities				
Amortised cost	418,000	403,490	438,433	306,605

The Company

As at 30 April 2017, the Company has financial liability carried at amortised cost, which is amount due to a subsidiary of HK$3,760,000.

Financial risk management objectives and policies

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

Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits (see note 20) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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

Foreign currency risk

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

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

	Assets				**Liabilities**			
	As at 31 December			**As at 30 April**	**As at 31 December**			**As at 30 April**
	2014	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
HK$	3,310	1	–	–	–	–	–	–
European dollar ("EUR")	21,020	22,330	11,690	7,783	8,041	7,646	11,610	6,153
Japanese Yen ("YEN")	180	635	62	36	–	–	–	–
RMB	2	–	24	363	12,167	11,456	10,727	10,835

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

In addition, intercompany balances denominated in foreign currencies are as follows:

	As at 31 December			**As at 30 April**
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	129,030	87,905	104,018	265,682

Sensitivity analysis

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

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

	Year ended 31 December			Four months ended 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	124	–	–	–
EUR	487	551	3	61
YEN	7	24	2	1
RMB	4,383	2,866	3,500	9,570

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

Credit risk

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

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

The directors of the Company consider that the Group's credit risk in relation to sales made at consignment counters is limited as the Group only operates consignment counters in leading and reputable department stores. For other customers, the management closely monitors settlement status and regularly updates their credit profile to ensure that the Group's credit risk is properly managed.

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

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
Amount due from the largest debtor as a percentage to total trade receivables	4%	6%	8%	11%
Total amount due from the five largest debtors as a percentage to total trade receivables	17%	14%	26%	24%

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

The credit risk on liquid funds and banks deposits is limited because the counterparties are banks with good reputation.

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The Group

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2014					
Trade payables	–	138,853	82,416	221,269	221,269
Other payables	–	1,266	–	1,266	1,266
Amounts due to related parties	–	195,465	–	195,465	195,465
		335,584	82,416	418,000	418,000

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2015					
Trade payables	–	122,482	93,369	215,851	215,851
Other payables	–	614	–	614	614
Amounts due to related parties	–	187,025	–	187,025	187,025
		310,121	93,369	403,490	403,490

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016					
Trade payables	–	168,159	86,600	254,759	254,759
Other payables	–	1,334	–	1,334	1,334
Amounts due to related parties	–	182,340	–	182,340	182,340
		351,833	86,600	438,433	438,433

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 April 2017					
Trade payables	–	119,618	59,396	179,014	179,014
Other payables	–	2,202	–	2,202	2,202
Amounts due to related parties	–	125,389	–	125,389	125,389
		247,209	59,396	306,605	306,605

The Company

At 30 April 2017, amount due to a subsidiary is interest free and repayable on demand.

Fair value measurement of financial instruments

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

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

26. OPERATING LEASES

The Group As Lessee

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

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	74,811	92,361	99,644	100,232
In the second to fifth year, inclusive	81,880	81,239	98,051	87,160
Over five years	504	38	–	–
	157,195	173,638	197,695	187,392

Leases are negotiated with monthly rental for a range of one to five years.

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops' and consignment counters' turnover pursuant to the terms and conditions as set out in respective rental agreements. It is not possible to estimate in advance the amount of such contingent rent payable. During the years ended 31 December 2014, 2015, 2016 and the four months ended 30 April 2016 and 2017, the amounts of contingent rental recognised as expenses were HK$11,245,000, HK$12,813,000, HK$16,647,000, HK$6,506,000 (unaudited) and HK$8,330,000 respectively.

27. CAPITAL COMMITMENTS

	As at 31 December			As at 30 April
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for in respect of acquisition of property, plant and equipment	1,114	3,965	609	1,480

28. RETIREMENT BENEFITS PLANS

The Group operates the MPF Scheme for all qualifying employees in Hong Kong. The assets of the above scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,250 per month (increased to HK$1,500 per month effective from 1 June 2014) or 5% of the relevant payroll costs to the MPF Scheme.

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

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

At 31 December 2014, 2015 and 2016 and 30 April 2017, the Group had made aggregate provisions of HK$29,314,000, HK$38,862,000, HK$41,000,000 and HK$42,645,000 in respect of the estimated shortfall in social insurance plans and housing provident fund contributions.

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

The total cost charged to profit or loss of HK$30,383,000, HK$41,095,000, HK$36,784,000, HK$13,046,000 (unaudited) and HK$12,507,000 represents contributions paid or payable to the above schemes by the Group for the years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2016 and 2017, respectively. At the end of each reporting period, there were no forfeited contributions which arose upon employees leaving the schemes prior to their interests in the Group's contribution becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

29. RELATED PARTY DISCLOSURES

(a) Transactions

Name of related party	Nature of transactions	Year ended 31 December 2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	Four months ended 30 April 2016 *HK$'000* **(Unaudited)**	2017 *HK$'000*
Captcha Media Limited *(Note i)*	Marketing service fee	–	–	890	60	360
Land Smart *(Note ii)*	Rental expenses	1,544	1,492	1,167	286	574
Lovable International Holdings *(Note iii)*	Management fee	58	–	–	–	–

Notes:

(i) The related company is controlled by Dr. Lo Wing Yan, William, a director of the Company.

(ii) The related company is controlled by Mr. Lee, a director of the Company.

(iii) The related company is then immediate holding company.

(iv) The Group shares office space in Hong Kong with Lovable International Holdings, immediate holding company.

(b) Balances

Details of balances with related parties are set out in note 19.

(c) Compensation of key management personnel

The directors, chief executive and the employees included in the five highest paid individuals are identified as key management members of the Group and details of their compensation during the Track Record Period are set out in notes 11 and 12.

(d) Financial guarantees

A personal guarantee was given by a director of the Company in respect of banking facilities granted to the Group amounted to HK$6,100,000, HK$12,100,000, HK$23,000,000 and HK$23,000,000 as at 31 December 2014, 2015, 2016 and 30 April 2017, respectively. As represented by the directors of the Company, the personal guarantee as at 30 April 2017 will be fully released upon completion of the listing.

As at 31 December 2014, 2015 and 2016 and 30 April 2017, no banking facilities were utilised.

30. PARTICULARS OF SUBSIDIARIES

During the Track Record Period and as at the date of this report, the Company has direct and indirect shareholdings/equity interests in the followings subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/equity interest attributable to the Group as at 31 December 2014	2015	2016	30 April 2017	the date of this report	Principal activities	Notes
			%	%	%	%	%		
Directly held:									
Kidsland Holdings Limited	BVI 6 September 2010	USD1	100	100	100	100	100	Investment holding	
Silverkids Inc.	BVI 6 January 2014	USD100	58	58	58	58	58	Investment holding	
Indirectly held:									
Kidsland Distribution Limited 智樂寶有限公司 ("Kidsland Distribution")	Hong Kong 11 July 2011	HK$1,000	100	100	100	100	100	Investment holding	1
Kidsland HK Limited 孩思樂香港有限公司 ("Kidsland HK")	Hong Kong 3 September 2010	HK$1,000	100	100	100	100	100	Trading and sale of toys and infant products	1
Kidsland LCS Limited ("Kidsland LCS")	Hong Kong 23 March 2016	HK$8,000,000	–	–	100	100	100	Retail of toys	2
北京匯智樂思商貿有限公司	The PRC 30 December 2011	RMB3,800,000	100	100	100	100	100	Investment holding	3
廣州智樂商業有限公司	The PRC 16 April 2001	RMB500,000	100	100	100	100	100	Trading and sale of toys and infant products	4

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Shareholding/equity interest attributable to the Group as at 31 December 2014	2015	2016	30 April 2017	the date of this report	Principal activities	Notes
			%	%	%	%	%		
北京孩思樂商業有限公司	The PRC 14 June 2006	RMB3,000,000	100	100	100	100	100	Trading and sale of toys and infant products	3
北京凱奇樂商業有限公司	The PRC 20 October 2016	RMB2,000,000	–	–	100	100	100	Trading and sale of toys and infant products	5
廣州孩思樂商貿有限公司	The PRC 18 December 2012	RMB500,000	100	100	100	100	100	Trading and sale of toys and infant products	4
上海孩思樂商貿有限公司	The PRC 28 July 2008	RMB500,000	100	100	100	100	100	Trading and sale of toys and infant products	4
成都孩思樂商貿有限公司	The PRC 3 November 2010	RMB500,000	100	100	100	100	100	Trading and sale of toys and infant products	6
深圳孩思樂商貿有限公司	The PRC 29 August 2008	RMB500,000	100	100	100	100	100	Trading and sale of toys and infant products	4
Prince Asia Limited	Hong Kong 22 November 2013	HK$1	58	58	58	58	58	Investment holding	1
銀樂寶(天津)商貿有限公司	The PRC 17 February 2014	RMB17,000,000	58	58	58	58	58	Trading and sale of toys products	4

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in the BVI since their respective dates of incorporation as they are incorporated in the jurisdictions where there are no statutory audit requirements.

Notes:

1. The statutory financial statements for each of the two years ended 31 December 2014 and 2015 were audited by CHENG & CHENG LIMITED, Certified Public Accountants. The statutory financial statements for the year ended 31 December 2016 were audited by Deloitte Touche Tohmatsu.

2. No statutory audited financial statements for each of the two years ended 31 December 2014 and 2015 were available as it was incorporated on 23 March 2016. The statutory financial statements for the period from 23 March 2016 (date of incorporation) to 31 December 2016 is not yet due for submission.

3. The statutory financial statements for each of the two years ended 31 December 2014 and 2015 were audited by 北京金瑞永大會計師事務所有限公司. No statutory financial statements for the year ended 31 December 2016 were available as there was no requirement to issue audited accounts by the local authorities.

4. No statutory financial statements for each of the three years ended 31 December 2014, 2015 and 2016 were available as there was no requirement to issue audited accounts by the local authorities.

5. No statutory audited financial statements for each of the two years ended 31 December 2014 and 2015 were available as it was incorporated on 20 October 2016. No statutory financial statements for the year ended 31 December 2016 were available as there was no requirement to issue audited accounts by the local authorities.

6. The statutory financial statements for each of the two years ended 31 December 2014 and 2015 were audited by 深圳皇嘉會計師事務所. No statutory financial statements for the year ended 31 December 2016 were available as there was no requirement to issue audited accounts by the local authorities.

31. NON-CONTROLLING INTEREST

The table below shows details of a non-wholly owned subsidiary of the Group and related non-controlling interest:

	Profit allocated to non-controlling interest					Accumulated non-controlling interest			
	Year ended 31 December			Four months ended 30 April		As at 31 December			As at 30 April
Name of subsidiary	2014	2015	2016	2016	2017	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Silverkids and its subsidiaries	4,409	2,583	786	(112)	1,520	4,335	6,563	6,885	8,479

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets	63,007	70,296	73,639	75,137
Non-current assets	22	15	10	3
Current liabilities	(52,707)	(54,686)	(57,257)	(54,950)
Non-current liabilities	–	–	–	–
Equity attributable to owners of the Company	5,987	9,062	9,507	11,711
Non-controlling interest	4,335	6,563	6,885	8,479

	Year ended 31 December			Four months ended 30 April	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	76,117	134,463	123,578	31,867	41,775
Profit (loss) for the year/period	10,496	6,150	1,872	(266)	3,619
Other comprehensive (expense) income for the year/period	(175)	(847)	(1,105)	97	179
	10,321	5,303	767	(169)	3,798
Dividends paid to non-controlling interest	–	–	–	–	–
Net cash (outflow) inflow from operating activities	(20,557)	(2,050)	(3,170)	3,022	(102)
Net cash outflow from investing activities	(27)	(3)	–	(18)	–
Net cash inflow (outflow) from financing activities	30,336	16	(603)	590	15
Net cash inflow (outflow)	9,752	(2,037)	(3,773)	3,594	(87)

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to related parties	Total
	HK$'000	*HK$'000*
At 1 January 2014	30,893	30,893
Financing cash flows *(Note)*	47,453	47,453
Exchange adjustments	217	217
At 31 December 2014	78,563	78,563
Financing cash flows *(Note)*	16,062	16,062
Exchange adjustments	(1,917)	(1,917)
At 31 December 2015	92,708	92,708
Financing cash flows *(Note)*	(1,426)	(1,426)
Exchange adjustments	(1,912)	(1,912)

	Amounts due to related parties HK$'000	Total HK$'000
At 31 December 2016	89,370	89,370
Financing cash flows *(Note)*	32,545	32,545
Non-cash changes	(88,471)	(88,471)
Exchange adjustments	234	234
At 30 April 2017	33,678	33,678
Unaudited		
At 1 January 2016	92,708	92,708
Financing cash flows	(165)	(165)
Exchange adjustments	(641)	(641)
At 30 April 2016	91,902	91,902

Note: The cash flows make up the net amount of proceeds from amounts due to related parties and repayments of amounts due to related parties in the combined statements of cash flows.

33. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to 30 April 2017:

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

(ii) on 7 June 2017, a special dividend of HK$50,000,000 was declared and approved by the Company to Lovable International Holdings;

(iii) on 9 June 2017, 100,000 shares of the Company had been issued to shareholders of Lovable International Holdings at HK$1,000. The Reorganisation as detailed in the section headed "Our History and Reorganisation" in the Prospectus was duly completed;

(iv) the authorised share capital of the Company at the date of incorporation was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 20 October 2017, the Company increased its authorised share capital from HK$38,000,000 to HK$500,000,000 divided into 50,000,000,000 ordinary shares with a par value of HK$0.01 each;

(v) on 20 October 2017, the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme were conditionally approved and adopted. Details of the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme are set out in the sections headed "D. Other information – 2. Pre-IPO Share Option Scheme" and "D. Other Information – 1. Post-IPO Share Option Scheme", respectively, in Appendix IV to the Prospectus; On 20 October 2017, options to subscribe for an aggregate of 47,500,000 ordinary shares have been conditionally granted by the Company to the eligible participants of the Pre-IPO Share Option Scheme, including directors, senior management and other employees of the Company or its subsidiaries.

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

Vesting Date of the options	**Percentage of options vested**
After the first anniversary of the grant date	40% of the total number of options granted
After the second anniversary of the grant date	30% of the total number of options granted
After the third anniversary of the grant date	30% of the total number of options granted

The directors are in the progress of assessing the financial impact of the share options granted under this Pre-IPO Share Option Scheme;

(vi) the issuance of 599,899,997 shares to be made upon the capitalisation of sums standing to the credit of the share premium account of the Company referred to in Appendix IV to the Prospectus "Statutory and General Information – A. Further Information about our Group – 3. Resolutions in writing of our Shareholders passed on 20 October 2017", conditional on the share premium account of our Company being credited as a result of the allotment and issue to the persons whose names appear on the register of members of our Company immediately prior to the Listing Date on a pro rata basis; and

(vii) On 25 October 2017, Mr. Lee, Lovable Products (Hong Kong) Limited, Land Smart and Lovable International Holdings irrecoverably and unconditionally released and discharged the Group from payment of amounts due to them in writing and such amounts have been capitalised as deemed capital contribution from a shareholder and included in the Group's equity.

34. MAJOR NON-CASH TRANSACTION

As at 26 April 2017, there was a waiver of an amount due to Lovable Products of HK$88,471,000 which is accounted for as deemed contribution from a shareholder.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 30 April 2017.

The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group for each of the three years ended 31 December 2016 and the four months ended 30 April 2017 issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and CHENG & CHENG LIMITED, Certified Public Accountants, Hong Kong, the joint reporting accountants of the Company, as set forth in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to the owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group as at 30 April 2017, as if it had taken place on such date.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 or at any future dates. It is prepared based on audited combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 as derived from the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 *HK$'000* *(Note 1)*	**Estimated net proceeds from the Global Offering** *HK$'000* *(Note 2)*	**Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017** *HK$'000*	**Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 per Share** *HK$* *(Note 3)*
Based on the Offer Price of HK$1.5 per share	460,591	270,435	731,026	0.91
Based on the Offer Price of HK$2.2 per share	460,591	406,935	867,526	1.08

Notes:

(1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 is based on the combined net assets of the Group attributable to the owners of the Company as extracted from the Accountants' Report set forth in Appendix I to this prospectus.

(2) The adjustment to the unaudited pro forma statement of combined net tangible assets of the Group reflects the estimated net proceeds from the Global Offering to be received by the Company. The estimated net proceeds from the Global Offering is based on 200,000,000 shares at the Offer Price of HK$1.50 and HK$2.20, being the low-end and high-end of the stated Offer Price range, per Share, after deduction of the estimated underwriting fees and other related expenses incurred or expected to be incurred by the Group (excluding listing expenses which has been charged to profit or loss up to 30 April 2017 by the Group) and does not take into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in note 2 and on the basis that a total of 800,000,000 shares are in issue pursuant to taking into account of (i) one existing share as at 30 April 2017, (ii) issuance of 2 shares and 100,000 shares of the Company at nil consideration and minimal cost respectively (the "Share Subscription") as detailed in section headed "Subscription of Shares" of "History, Reorganisation and Corporate Structure" section of this prospectus, (iii) Capitalisation Issue and (iv) the Global Offering had been completed on 30 April 2017, but 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 issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.

(4) No adjustments have been made to the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 30 April 2017 to reflect any operating result or other transactions of the Group entered into subsequent to that date. In particular, the unaudited pro forma adjusted combined net tangible assets on the table above have not been adjusted to show the effects of a special dividend of HK$50,000,000 (the "Dividend") declared and approved by the Company on 7 June 2017 and the waiver of the amounts due by the Group to Mr. Lee Ching Yiu, Lovable Products (Hong Kong) Limited, Land Smart Development Limited and Lovable International Holdings Limited of approximately HK$117,254,000 on 25 October 2017 (the "Waiver").

Had the Dividend and the Waiver been completed on 30 April 2017, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company would increase from HK$731,026,000 to HK$798,280,000 based on Offer Price of HK$1.5 per Share, or from HK$867,526,000 to HK$934,780,000 based on Offer Price of HK$2.2 per Share. The following table illustrates the impact of the Global Offering, the Share Subscription, Capitalisation Issue and the Dividend and the Waiver on the unaudited pro forma financial information had the Global Offering, the Share Subscription, Capitalisation Issue and the distribution of the Dividend and the Waiver been completed on 30 April 2017.

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 taking into accounts Global Offering, the Share Subscription, Capitalisation Issue, the Dividend and the Waiver	**Unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 per share taking into accounts Global Offering, the Share Subscription, Capitalisation Issue, the Dividend and the Waiver**
	HK$'000	*HK$* *(Note)*
Based on the Offer Price of HK$1.5 per share	798,280	1.00
Based on the Offer Price of HK$2.2 per share	934,780	1.17

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and CHENG & CHENG LIMITED, Certified Public Accountants, Hong Kong, the joint reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this prospectus.

Deloitte. 德勤 CHENG & CHENG LIMITED Certified Public Accountants 鄭鄭會計師事務所有限公司

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Kidsland International Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kidsland International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 30 April 2017 and related notes as set out on pages II-1 and II-2 of Appendix II to the prospectus issued by the Company dated 31 October 2017 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 and II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the global offering and listing of the Company's shares (the "Global Offering") on the Group's financial position as at 30 April 2017 as if the Global Offering had taken place at 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 historical financial information for each of the three years ended 31 December 2016 and the four months ended 30 April 2017, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities 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 (the "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.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 Accountants' 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 accountants plan and perform 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 an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group 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 event or transaction 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 accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

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 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 31 October 2017

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong, 31 October 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 April 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). Our Company's constitutional documents consist of its Memorandum of Association (the "Memorandum") and its Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 20 October 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of our 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 our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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

Our Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by our Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, 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, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

Our Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to our Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 our 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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions 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 and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange 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 our Company are 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 our Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The ordinary remuneration of our Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Our Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our 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 ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, 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

Pursuant to the Articles, payments to any 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 entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has 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 contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our 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 contract or arrangement in which our Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of our 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, in the case of such members as 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 in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(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, but the absence of a quorum shall not preclude the appointment of a chairman.

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 our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our Company and is 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 is 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Our 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.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.5 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.0 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that our 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 our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority 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 our Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is 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

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. 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 shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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 purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 17 May 2017.

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 our 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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

(o) Register of Directors and Officers

Our Company is required to maintain at its registered office a register of 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 sixty (60) days of any change in such directors or officers.

(p) Register of Beneficial Ownership

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of 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 V to 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.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 26 April 2017 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 29 May 2017. We have established a place of business in Hong Kong at 28/F, Times Tower, 391-407 Jaffe Road, Hong Kong. Ms. Wong Yuk Ki, who resides at Room 1204, 18 Austin Ave, Kowloon, Hong Kong, was appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the Cayman Companies Law and its constitution comprising the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Cayman company law is set out in Appendix III to this prospectus.

2. Change in share capital

Our authorised share capital at the date of our incorporation was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 26 April 2017, one Share, credited as fully paid, was allotted and issued to an initial subscriber and such Share was subsequently transferred to Lovable International Holdings Limited ("**Lovable International Holdings**") on the same day.

On 29 May 2017, 1 Share, credited as fully paid, with a par value of HK$0.01 was allotted and issued to Lovable International Holdings as consideration to acquire the entire issued share capital of Kidsland Holdings. On the same date, 1 Share, credited as fully paid, with a par value of HK$0.01 was allotted and issued to Lovable International Holdings as consideration to acquire 58% of the issued share capital of Silverkids.

On 9 June 2017, 74,870 Shares, 13,130 Shares, 5,000 Shares, 4,000 Shares, 500 Shares, 500 Shares, 500 Shares, 500 Shares, 500 Shares and 500 Shares, credited as fully paid at par, were allotted to Asian Glory, Eurojoy, Stars Link Ventures Limited ("**Stars Link**"), Constant New Limited ("**Constant New**"), Merits Forest Global Limited ("**Merits Forest**"), Rainbow Forest Group Limited ("**Rainbow Forest**"), Silver Smart Global Limited ("**Silver Smart**"), Eminent Billion Global Limited ("**Eminent Billion**"), Thrive Sky Ventures Limited ("**Thrive Sky**") and Powerful Treasure Investment Limited ("**Powerful Treasure**"), respectively.

On 20 October 2017, our Company increased its authorised share capital from HK$38,000,000 to HK$500,000,000 divided into 50,000,000,000 ordinary Shares with a par value of HK$0.01 each.

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company will be HK$8,000,000 divided into 800,000,000 Shares, all fully paid or credited as fully paid and 49,200,000,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the paragraph headed "A. Further information about our Group – 3. Resolutions in writing of our Shareholders passed on 20 October 2017" below in this Appendix, there has been no changes in the share capital of our Company since its incorporation.

3. Resolutions in writing of our Shareholders passed on 20 October 2017

Pursuant to the written resolutions passed by our Shareholders on 20 October 2017:

(a) we approved and adopted the Memorandum with immediate effect;

(b) we approved and conditionally adopted the Articles which will become effective upon the Listing Date;

(c) the authorised share capital of our Company was increased from HK$38,000,000 to HK$500,000,000 by the creation of 49,962,000,000 additional Shares;

(d) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Capitalisation Issue and our Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Post-IPO Share Option Scheme); (ii) the entering into of the agreement on the Offer Price among our Company and the Sole Global Coordinator (for and on behalf of the Underwriters) on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;

(ii) the Over-allotment Option was approved;

(iii) the rules of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed "D. Other information – 1. Post-IPO Share Option Scheme" and "D. Other information – 2. Pre-IPO Share Option Scheme" below in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Schemes; and

(iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of HK$5,998,999.97 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 599,899,997 Shares, such Shares to be allotted and issued to the persons whose names appear on the register of members of our Company immediately prior to the Listing Date on a pro rata basis.

(e) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to 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 pursuant to the grant of options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with a total number not exceeding 20% of the total number of Shares of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first;

(f) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase, on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first; and

(g) the general unconditional mandate mentioned in paragraph (e) above was extended by the addition to the aggregate number of Shares of our Company which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of a number representing the aggregate number of Shares of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the listing of our Shares on the Stock Exchange. For information relating to the Reorganisation, please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus.

5. Changes in share capital of subsidiaries

Our subsidiaries are referred to in the Accountant's Report in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountant's Report and in the section headed "History, Reorganisation and Corporate Structure", our Company has no other subsidiaries.

Save for the changes disclosed in the section headed "History, Reorganisation and Corporate Structure", there were no changes to the share capital of our subsidiaries within two years immediately preceding the date of this prospectus.

6. Repurchases of our Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note:

Pursuant to the written resolution passed by our Shareholders on 20 October 2017, a general unconditional mandate (the "**Buyback Mandate**") was granted to our Directors authorising the repurchase of shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with the total number of Shares not exceeding 10% of the total number of Shares in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own 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 in effect from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company. Subject to the Cayman Companies Law, a repurchase may also be made out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Buyback Mandate, on the basis of 800,000,000 Shares in issue immediately after the listing of our Shares (without taking into account our Shares which may be alloted and issued pursuant to the exercise of the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Post-IPO Share Option Scheme), could accordingly result in up to 80,000,000 Shares being repurchased by our Company during the period until:

(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 any applicable law or the Articles to be held; or

(iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

(e) General

None of our Directors or, 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 to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering and the Capitalisation Issue (but not taking into account our Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme and which may be granted under the Post-IPO Share Option Scheme), the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 80,000,000 Shares, being 10% of the total number of Shares based on the aforesaid assumptions. The percentage shareholding of our Controlling Shareholders will be increased to approximately 62.392% of the issued share capital of our Company immediately following the full exercise of the Buyback Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the deed of waiver dated 28 April 2017 entered into among Lovable Products Trading Limited, Kidsland HK and Kidsland LCS in respect of the waiver of debts in the amounts of HK$81,319,004.32 and HK$7,152,284 payable by Kidsland HK and Kidsland LCS to Lovable Products Trading Limited, respectively;

(b) the deed of waiver dated 25 October 2017 entered into between Mr. Lee and Kidsland Holdings in respect of the waiver of debt in the amount of HK$2,850,447.89 payable by Kidsland Holdings to Mr. Lee;

(c) the deed of waiver dated 25 October 2017 entered into between Lovable Products (Hong Kong) Limited and Kidsland Holdings in respect of the waiver of debt in the amount of HK$92,710,485.31 payable by Kidsland Holdings to Lovable Products (Hong Kong) Limited;

(d) the deed of waiver dated 25 October 2017 entered into between Land Smart Development Limited and Kidsland Holdings in respect of the waiver of debt in the amount of HK$9,416,897.63 payable by Kidsland Holdings to Land Smart Development Limited;

(e) the deed of waiver dated 25 October 2017 entered into between Lovable International Holdings Limited and Kidsland Holdings in respect of the waiver of debt in the amount of HK$12,275,957.09 payable by Kidsland Holdings to Lovable International Holdings Limited;

(f) the Deed of Indemnity;

(g) the Deed of Non-competition; and

(h) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group was the registered proprietor of the following trademarks which, in opinion of our Directors, are material to our business:

Trademark	Registration No.	Class(Note 1)	Name of Registered Proprietor	Place of registration	Expiry Date
kids land	302657160	14, 16, 28, 35	Kidsland HK	Hong Kong	1 July 2023
凯知乐	303892591	14, 16, 28, 35, 41	Kidsland HK	Hong Kong	4 September 2026
kidsland	303892663	14, 16, 28, 35, 41	Kidsland HK	Hong Kong	4 September 2026
凱知樂	303897370	14, 16, 28, 35, 41	Kidsland HK	Hong Kong	8 September 2026
EDU FUN	13521726	16	Kidsland HK	PRC	13 February 2025
EDU FUN	13521800	28	Kidsland HK	PRC	20 February 2025
EDU FUN	13521773	41	Kidsland HK	PRC	27 February 2025
cutties	13521778	41	Kidsland HK	PRC	20 February 2025
银乐宝	16649929	28	Silverkids Tianjin	PRC	20 October 2026
Silverkids	16649880	28	Silverkids Tianjin	PRC	27 May 2026
Silverkids	16649747	35	Silverkids Tianjin	PRC	27 May 2026
silverkids	16720136	28	Silverkids Tianjin	PRC	6 June 2026

Trademark	Registration No.	Class(Note 1)	Name of Registered Proprietor	Place of registration	Expiry Date
Silverkids	16720184	35	Silverkids (Tianjin)	PRC	6 June 2026
孩 思 乐	7533274	28	Beijing Haisile	PRC	13 November 2020
孩 思 乐	7533273	35	Beijing Haisile	PRC	6 December 2020
baby land	8957877	14	Beijing Haisile	PRC	27 December 2021
baby land	8957879	21	Beijing Haisile	PRC	27 December 2021
baby land	8957881	25	Beijing Haisile	PRC	20 February 2022
benelw	16306386	35	Beijing Haisile	PRC	6 May 2026
Bebebene	16306376	35	Beijing Haisile	PRC	6 May 2026
bébécrush	16306569	35	Beijing Haisile	PRC	6 May 2026
Benefuture	16306648	35	Beijing Haisile	PRC	6 May 2026
U+ start	16306688	35	Beijing Haisile	PRC	6 May 2026
FeM	16306317	35	Beijing Haisile	PRC	27 May 2026

Trademark	Registration No.	Class(Note 1)	Name of Registered Proprietor	Place of registration	Expiry Date
	16306218	35	Beijing Haisile	PRC	20 June 2026
	16306647	35	Beijing Haisile	PRC	27 September 2026
凯知乐	19771283	16	Beijing Haisile	PRC	13 June 2027
凯知乐	19772013	28	Beijing Haisile	PRC	13 June 2027
凯知乐	19772287	35	Beijing Haisile	PRC	13 June 2027
凯知乐	19772635	41	Beijing Haisile	PRC	13 June 2027
创玩季	19771359	16	Beijing Haisile	PRC	13 June 2027
创玩季	19771922	28	Beijing Haisile	PRC	13 June 2027
创玩季	19772229	35	Beijing Haisile	PRC	13 June 2027
创玩季	19772567	41	Beijing Haisile	PRC	13 June 2027
启思妙趣	19771625	16	Beijing Haisile	PRC	13 June 2027
启思妙趣	19771848	28	Beijing Haisile	PRC	13 June 2027
启思妙趣	19772159	35	Beijing Haisile	PRC	13 June 2027
启思妙趣	19772523	41	Beijing Haisile	PRC	13 June 2027
智玩乐思	19771568	16	Beijing Haisile	PRC	13 June 2027
智玩乐思	19771868	28	Beijing Haisile	PRC	13 June 2027
智玩乐思	19772313	35	Beijing Haisile	PRC	13 June 2027
智玩乐思	19772345	41	Beijing Haisile	PRC	13 June 2027

Trademark	Registration No.	Class(Note 1)	Name of Registered Proprietor	Place of registration	Expiry Date
kids land	6407050	14	Kidsland China	PRC	20 April 2020
kids land	6407049	16	Kidsland China	PRC	20 April 2020
kids land	6407048	28	Kidsland China	PRC	13 May 2020
kids land	6407047	35	Kidsland China	PRC	6 July 2020
kidsland	20494990	14	Kidsland China	PRC	20 August 2027
kidsland	20495141	16	Kidsland China	PRC	20 August 2027
babyland	19126769	35	Beijing Haisile	PRC	27 April 2027

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks which, in opinion of our Directors, are material to our business:

Trademark	Application No.	Class(Note 1)	Name of Applicant	Place of registration	Application Date
kidsland	20495244	28	Kidsland China	PRC	30 June 2016
kidsland	20495401	35	Kidsland China	PRC	30 June 2016
Kidsland Fun Experience	25135669	28	Kidland China	PRC	4 July 2017
Kidsland Experience Center	25140250	35	Kidland China	PRC	4 July 2017

Trademark	Registration No.	Class	Name of Applicant	Place of registration	Application date
凯知乐园	25139298	28	Beijing Haisile	PRC	4 July 2017
凯知乐园	25138299	35	Beijing Haisile	PRC	4 July 2017
凯知乐享空间	25138310	35	Beijing Haisile	PRC	4 July 2017
凯知乐享空间	25142746	28	Beijing Haisile	PRC	4 July 2017
凯知乐体验空间	25152166	28	Beijing Haisile	PRC	4 July 2017
凯知乐体验空间	25138310	35	Beijing Haisile	PRC	4 July 2017
B	25834814	21	Beijing Haisile	PRC	14 August 2017
B	25834813	14	Beijing Haisile	PRC	14 August 2017
B	25834812	25	Beijing Haisile	PRC	14 August 2017
B	25834811	35	Beijing Haisile	PRC	14 August 2017
babyland	25834816	14	Beijing Haisile	PRC	14 August 2017
babyland	25834815	21	Beijing Haisile	PRC	14 August 2017

Notes:

Trademark classification are as follows:

Class 14: alloys of precious metal; jewelry; jewelry boxes; precious stones; wristwatches; clocks; ornaments jewellery, jewelry (Am.); works of art of precious metal; charms jewellery, jewelry (Am.); silver thread jewellery, jewelry (Am.).

Class 16: pamphlets; writing or drawing books; books; comic books; song books; drawing pens; drawing boards; drawing materials; magazines periodicals; printed publications.

Class 25: Clothing, footwear, headgear.

Class 28: toys; building blocks toys; dolls; plush toys; toy vehicles; jigsaw puzzles; radio-controlled toy vehicles; scale model kits toys; stuffed toys; checkers games.

Class 35: advertising; on-line advertising on a computer network; business management consultancy; commercial administration of the licencing of the goods and services of others; import-export agency services; marketing; personnel management consultancy; administrative processing of purchase orders; book-keeping; retail or wholesale services for pharmaceutical, veterinary and sanitary preparations and medical supplies.

Class 41: publication of texts, other than publicity texts; publication of texts, other than publicity texts; publication of books; on-line publication of electronic books and journals; electronic desktop publishing; layout services, other than for advertising purposes; rental of sound recordings; teaching; instruction services; providing on-line electronic publications, not downloadable.

(b) Domain names

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names which, in opinion of our Directors, are material to our business:

Domain name	Name of Registered Proprietor	Date of registration	Expiry Date
凯知乐.net	Beijing Haisile	12 July 2016	12 July 2021
凯知乐.com	Beijing Haisile	12 July 2016	12 July 2021
凯知乐.cn	Beijing Haisile	12 July 2016	12 July 2021
kidsland.com.cn	Beijing Haisile	23 November 2008	23 November 2017
kidslandchina.cn	Beijing Haisile	12 July 2016	12 July 2021
kidslandchina.com.cn	Beijing Haisile	12 July 2016	12 July 2021
kidslandchina.com	Kidsland China	25 October 2001	25 October 2021
孩思乐.net	Kidsland China	20 October 2006	20 October 2021
孩思乐.com	Kidsland China	20 October 2006	20 October 2021
kidslandasia.com	Our Company	8 April 2016	8 April 2018
kidslandholdings.com	Our Company	8 April 2016	8 April 2018
kidslandhongkong.com	Our Company	8 April 2016	8 April 2018
kidslandgroup.com	Our Company	8 April 2016	8 April 2018

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of Interests – interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme, the interests or short positions of our Directors or chief executive of our Company in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once our Shares are listed will be as follows:

(i) Interests in our Shares

Name	**Nature of interest**	**Interests in Shares** *(Note 1)*	**Approximate percentage shareholding**
Mr. Lee *(Note 2)*	Interest in controlled corporation	449,224,523(L)	56.153%
Dr. Lo *(Note 3)*	Interest in controlled corporation	23,999,280(L)	3.00%
Ms. Zhong *(Note 4)*	Interest in controlled corporation	29,999,100(L)	3.75%
Mr. Du Ping *(Note 5)*	Interest in controlled corporation	2,999,910(L)	0.375%

Notes:

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

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

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

(4) Ms. Zhong is the sole shareholder of Star Links. By virtue of the SFO, Ms. Zhong is deemed to be interested in the Shares directly held by Star Links.

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

(ii) Interests in underlying Shares

Name	Nature of interest	Number of Shares in our Company subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage shareholding
Mr. Lee	Beneficial owner	4,000,000	0.5%
Dr. Lo	Beneficial owner	4,000,000	0.5%
Ms. Zhong	Beneficial owner	4,000,000	0.5%
Mr. Du Ping	Beneficial owner	1,500,000	0.1875%

(iii) Interests in associated corporations of our Company

Name	Name of associated corporation	Number of shares interested	Approximate percentage Shareholding
Mr. Lee	Asian Glory	50,000	100%

(b) Particulars of service contracts

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

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

(c) Directors' remuneration

Each of our executive Directors is entitled to a director's fee and shall be paid a remuneration on the basis of a twelve-month year. The aggregate amount of remuneration of our Directors (including fees, salaries and allowances, discretionary bonuses, retirement benefit schemes contributions, housing allowances and other allowances and benefits in kind incurred by our Group for the three years ended 31 December 2014, 2015 and 2016 was approximately HK$682,000, HK$719,000 and HK$657,000, respectively.

Our non-executive Directors have been appointed for a term of three years. We intend to pay a director's fee of HK$100,000 per annum to each of Mr. Du Ping and Ms. Duan Lanchun, our non-executive Directors, respectively.

Our independent non-executive Directors have been appointed for a term of three years. We intend to pay a director's fee of HK$280,000 per annum to each of Mr. Cheng Yuk Wo, Dr. Lam Lee G. and Mr. Huang Lester Garson, our independent non-executive Directors, respectively.

Under the arrangement currently in force, the aggregate remuneration (including fees, salaries and allowances, retirement benefit schemes contributions, share-based compensation and benefit in kind) of our Directors for the year ending 31 December 2017 is estimated to be no more than HK$1,631,000.

Further details of the terms of the abovementioned service contracts are set out in the paragraph headed "C. Further information about Directors and substantial Shareholders – 1. Directors – (b) Particulars of service contracts" above in this Appendix.

2. Substantial Shareholders

So far as is known to our Directors as at the Latest Practicable Date, immediately following the completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is not exercised and taking no account of any Shares that may be issued pursuant to the exercise of options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme, the following persons (other than our Directors and chief executive of our Company) would have or be deemed or taken to have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares(Note 1)	Approximate percentage of interest in our Company
Ms. Tang Hoi Lun(Note 2)	Interest of spouse	453,224,523(L)	56.653%
Asian Glory(Note 3)	Beneficial Owner; Interest in controlled corporation	449,224,523(L)	56.153%
Eurojoy	Beneficial Owner	78,777,637(L)	9.847%
FCPR Cathay Capital II(Note 4)	Interest in controlled corporation	78,777,637(L)	9.847%

Notes:

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

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

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

(4) Eurojoy is wholly-owned by FCPR Cathay Capital II. By virtue of the SFO, FCPR Cathay Capital II is deemed to be interested in the Shares held by Eurojoy.

So far as known to our Directors as at the Latest Practicable Date, the following persons (excluding our Company) are directly and indirectly interested in 10% or more of the issued voting shares of any member of our Group:

Member of our Group	Name of shareholder	Number of shares interested	Percentage shareholding
Silverkids	Brilliant Sino*(Note 1)*	42	42%
	Choi Kei Fung*(Note 1)*	42	42%

Note:

(1) Brilliant Sino is directly interested in 42% of the issued share capital of Silverkids. Choi Kei Fung is the sole shareholder of Brilliant Sino and therefore indirectly interested in the issued share capital of Silverkids held by Brilliant Sino.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

4. Disclaimers

Save as disclosed herein:

(a) none of our Directors or chief executive of our Company has any interest or short position in our shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once our Shares are listed;

(b) none of our Directors or experts referred to under the paragraph headed "D. Other information – 9. Qualification of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been 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;

(c) 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 taken as a whole;

(d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of issued voting shares of any member of our Group;

(f) none of the experts referred to under the paragraph headed "D. Other information – 9. Qualification of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(g) so far as is known to our Directors as at the Latest Practicable Date, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the number of issued Shares has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 20 October 2017.

(a) Purpose

The Post-IPO Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Post-IPO Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and

(ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "**Eligible Participants**") to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (including independent non-executive Directors) of our Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1.0 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of our Company of HK$1.0 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by 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 Exercise Price for our Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of our Shares so allotted.

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 80,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Post-IPO Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) increase this limit at any time to 10% of our Shares in issue at the date of the approval by our Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of our Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Post-IPO Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of our Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:

(aa) the Eligible Participant's name, address and occupation;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of Shares in respect of which the option is offered;

(ff) the subscription price and the manner of payment of such price for our Shares on and in consequence of the exercise of the option;

(gg) the date of the notice given by the grantee in respect of the exercise of the option; and

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) Price of Shares

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Post-IPO Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

(i) the official closing price of our Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of our Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of our Shares in issue; and

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of our Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting by way of a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

(i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

(ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;

(iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of Options

A grant of options may not be made after a price sensitive event has occurred or after inside information has come to the knowledge of our Company until it has been published pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) 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 our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of its annual results or half- year, or quarterly or other interim period (whether or not required under the Listing Rules), and ending on the date of actual publication of the results announcement, and where an option is granted to a Director:

(i) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Post-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of option and duration of the Post-IPO Share Option Scheme

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Post-IPO Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(k) Performance target

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Post-IPO Share Option Scheme can be exercised.

(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

(i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or

(ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) Rights on takeover

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our 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, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and 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 meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrations and their certificate shall, in absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made 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 is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

a. the date of expiry of the option as may be determined by the Board;

   (i) the expiry of any of the periods referred to in paragraphs (1), (m), (n), (o) or (p);

   (ii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;

   (iii) subject to paragraph (o), the date of commencement of the winding-up of our Company;

(iv) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or in relation to an employee of our Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(v) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) Alteration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and

(ii) any material alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted,

shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Post-IPO Share Option Scheme. The amended terms of the Post-IPO Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Post-IPO Share Option Scheme must be approved by Shareholders in general meeting.

(u) Cancellation of Options

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph (m).

(v) Termination of the Post-IPO Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time terminate the Post-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(w) Administration of the Board

The Post-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Post-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) Condition of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional on:

(i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Post-IPO Share Option Scheme;

(ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and

(iii) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within six calendar months from the Adoption Date:

(i) the Post-IPO Share Option Scheme shall forthwith determine;

(ii) any option granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme and any offer of such a grant shall be of no effect; and

(iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Post-IPO Share Option Scheme or any option granted thereunder.

(y) Disclosure in annual and interim reports

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(z) Present status of the Post-IPO Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, being 80,000,000 Shares in total.

2. Pre-IPO Share Option Scheme

(a) Introduction

In recognition of the contributions made by the employees of our Group towards its growth and success, on 20 October 2017, a total of 78 eligible participants were offered options to subscribe for an aggregate of 47,500,000 Shares, representing approximately 5.94% of the issued Shares immediately following the Global Offering (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme). The principal terms of the Pre-IPO Share Option Scheme were approved by resolutions in writing of all our Shareholders passed on 20 October 2017 and are substantially the same as the terms of our Post-IPO Share Option Scheme except for the following principal terms:

(i) the exercise price per Share shall be HK$0.8;

(ii) the total number of Shares subject to the Pre-IPO Share Option Scheme is 47,500,000 Shares, representing approximately 5.94% of the issued share capital of our Company immediately upon completion of the Global Offering, but excluding all Shares which may be issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme or which may be issued pursuant to options which may be granted under the Post-IPO Share Option Scheme;

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

Vesting Date	Percentage of options vested
After the first anniversary of the grant date	40% of the total number of options granted
After the second anniversary of the grant date	30% of the total number of options granted
After the third anniversary of the grant date	30% of the total number of options granted

(iv) eligible participants under the Pre-IPO Share Option Scheme are full-time, key employees, consultants or directors of our Group who, in the sole opinion of the Board, have contributed to our Company and/or any of our subsidiaries (the "**Pre-IPO Eligible Participants**"); and

(v) except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options have been or agreed to be granted under the Pre-IPO Share Option Scheme, as the the maximum number of options under the Pre-IPO Share Option Scheme has been fully granted.

Application has been made to the Listing Committee for the listing of and permission to deal in Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

(b) Outstanding options granted under the Pre-IPO Share Option Scheme

As at the date of this prospectus, options to subscribe for an aggregate of 47,500,000 Shares at an exercise price of HK$0.8 had been conditionally granted by us under the Pre-IPO Share option Scheme. A total of 78 Pre-IPO Eligible Participants have been granted options under the Pre-IPO Share Option Scheme. A full list of such grantees under the Pre-IPO Share Option Scheme, containing all particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules is set forth below:

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering(Note)
Directors of our Company and our subsidiaries			
Mr. Choi Kei Fung	29/B, Tower II Regent-On-The-Park 9A Kennedy Road Hong Kong	6,000,000	0.75%
Mr. Lee Ching Yiu	Flat A, 42nd Floor The Altitude 20 Shan Kwong Road Happy Valley Hong Kong	4,000,000	0.5%
Dr. Lo Wing Yan William	Flat 81, 18th Floor Tower 14, Parkview Heights Hong Kong Parkview No. 88 Tai Tam Reservoir Road Wong Nai Chung Gap Hong Kong	4,000,000	0.5%
Ms. Zhong Mei	Room 401, Unit 2, Tower 3 No. 6 Guangze Road Chaoyang District, Beijing PRC	4,000,000	0.5%
Mr. Du Ping	No. 202, Gate 1, Building No. 3 No. 5 Yard Sanlihe No. 1 Community Xicheng District, Beijing PRC	1,500,000	0.1875%
Ms. Zhang Ying	Room 402, Gate 2, 21th Floor Qihuali, Huayuan Road Nankai District, Tianjin PRC	1,500,000	0.1875%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering*(Note)*
Senior management and other employees of our Group			
Mr. Yang Kewei	Room 501, No. 1 1599 Dingxiang Road, Pudong New District, Shanghai PRC	1,500,000	0.1875%
Ms. Zhang Weili	Shawan Residence Committee Buji County Longgang District, Shenzhen Guangdong PRC	1,500,000	0.1875%
Ms. Chang Rong	Room 2601, Unit 3, Block 10 No.8 Yuan, Lize West Street Chaoyang District, Beijing PRC	1,500,000	0.1875%
Ms. Cao Yuelin	No. 202, Unit 3, Block 2 Gongti Beili, Dongcheng District Beijing PRC	1,500,000	0.1875%
Mr. Liang Dasheng	Room 2, Block 15 280 Youyi Road, Weiyang District Yangzhou, Jiangsu PRC	600,000	0.075%
Ms. Wong Yuk Ki	Room 1204, 18 Austin Ave Kowloon Hong Kong	800,000	0.1%
Mr. Ng Kwok Shek Marco	Flat E, 8th Floor 108 Lockhart Road Wanchai Hong Kong	800,000	0.1%
Ms. Lo Wing Yin	Flat A6, 14/F, Pearl Court 13 Belcher's Street Kennedy Town Hong Kong	500,000	0.0625%
Mr. Fang Gang	No. 1210, Building 408 Balizhuang Xili Chaoyang District, Beijing PRC	500,000	0.0625%
Ms. Zhao Dinghua	No. 603, Unit 6, 2/F Xihuashinanli East Chongwen District, Beijing PRC	500,000	0.0625%
Ms. Zhou Ping	Room 1403, Building 5 Xibahe Nanli Chaoyang District, Beijing PRC	500,000	0.0625%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering (Note)
Ms. Zhang Liyu	Room 301, No. 6, 2590 Xietu Road, Xuhui District Shanghai PRC	400,000	0.05%
Mr. Wang Zengqi	No. 302, Unit 3, Building 320 Baiziwan Dongli Chaoyang District, Beijing PRC	400,000	0.05%
Ms. Lu Yonghui	No. 402, Gate 2, 14/F No. 14, Xueyuan Road Haidian District, Beijing PRC	400,000	0.05%
Ms. Kuang Yanji	Suite 1306, No. 4, Qianxi Yijie Haizhu District, Guangzhou Guangdong PRC	400,000	0.05%
Ms. Wang Aili	No. 10, Unit 3, Building 4 Court 28, Xizhimen Beidajie Haidian District, Beijing PRC	400,000	0.05%
Ms. Qiu Yujie	Room 401, No. 27 500 Baodi Road Baoshan District, Shanghai PRC	400,000	0.05%
Ms. Huang Yuxia	Room 1501, No. 316 Xianlie East Road, Tianhe District Guangzhou, Guangdong PRC	300,000	0.0375%
Mr. Ma Yongjie	No. 1801, Unit 1, Building 7 68 Baliqiao Nanjie Tongzhou District, Beijing PRC	400,000	0.05%
Mr. Xu Zhongqiao	No. 602, Unit 2, Building 2 East Longshengyuan Estate Panggezhuang Town Daxing District, Beijing PRC	400,000	0.05%
Ms. Zhu Qiping	Suite 404, Building 3 No. 67, Tianshou Road Tianhe District, Guangzhou Guangdong PRC	300,000	0.0375%
Ms. Gao Yue	Room 101, No. 1 1057 Zhongshan Nan'erlu Xuhui District, Shanghai PRC	500,000	0.0625%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering(Note)
Mr. Qi Dejun	No. 5, 457 Ningbo Road Huangpu District, Shanghai PRC	500,000	0.0625%
Ms. Wang Aiting	No. 2, 3 Floor, No. 481-3 Changmingli, Jianghan District Wuhan, Hubei PRC	300,000	0.0375%
Ms. Jiang Xiaolan	Room 302, No. 134 Yincheng Garden, Gulou District Nanjing, Jiangsu PRC	300,000	0.0375%
Ms. Liu Xiaomei	Room 1504, 12 Huiwen Fourth Street, Liwan District, Guangzhou Guangdong PRC	500,000	0.0625%
Ms. Zhuang Ruiping	Suite 302, No. 12, Meihua Road Yuexiu District, Guangzhou Guangdong PRC	400,000	0.05%
Mr. Zhong Ji	57 Meidong Road, Meilu Street Wuchuan, Guangdong PRC	400,000	0.05%
Mr. Li Biming	Suite 206, No. 55 Fengyuanzhongyue Liwan District, Guangzhou Guangdong PRC	300,000	0.0375%
Ms. Ye Shunping	Room 801, 20 Renxiuxin Street Dongshan District, Guangzhou Guangdong PRC	300,000	0.0375%
Ms. Wen Dongping	Room 702, Building 21 Lianhua Yicun, Futian District Shenzhen, Guangdong PRC	300,000	0.0375%
Ms. Sun Jing	Room 1202, No. 6 Huagang Dongjie, Tianhe District Guangzhou, Guangdong PRC	300,000	0.0375%
Ms. Su Zhenxiang	No. 22, Building 7 Shuinichangdalou Shijingshan District, Beijing PRC	300,000	0.0375%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering(Note)
Ms. Zhou Xian	No. 10, Gate 4, Building 1 Caihuying, Fengtai District Beijing PRC	300,000	0.0375%
Ms. Zhao Jing	No. 112, Building 7 Yanjing Dongli, Chaoyang District Beijing PRC	400,000	0.05%
Ms. Liu Ge	No. 168, Zhongshan East Road Qiaodong District, Shijiazhuang Hebei PRC	200,000	0.025%
Mr. Wang Hongwei	No. 312, 58/F, Hongmiao Beili Chaoyang District, Beijing PRC	300,000	0.0375%
Mr. Chen Weiqiang	Room 402, No.1 168 Caogao Zhilu Waigaoqiao Town Pudong New District, Shanghai PRC	300,000	0.0375%
Mr. Deng Yiming	Suite 402, No.4 Xiejiaxincun Nan'erxiang Baiyun District, Guangzhou Guangdong PRC	300,000	0.0375%
Mr. Xu Zhongjian	No. 42, Baijiazhuang Dongli Chaoyang District, Beijing PRC	200,000	0.025%
Ms. Chen Jing	No. 2, Unit 4, 22/F, Panjiayuan Chaoyang District, Beijing PRC	200,000	0.025%
Ms. Huang Hua	Room 1001, Building 60 Court 109, Chaoyang District Beijing PRC	200,000	0.025%
Ms. Meng Zhao	No. 2104, Unit 1, 21/F, Building 7 Court 2, Hejing Road Chaoyang District, Beijing PRC	200,000	0.025%
Ms. Cen Haiying	No. 3, Row 2, No. 10 Anji Section 3, Nanyi Village Shahe Town, Changping District Beijing PRC	200,000	0.025%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering(Note)
Mr. Wang Lei	No. 722, Liqizhuangzhen Dajie Sanhe City, Hebei PRC	200,000	0.025%
Ms. Xia Ping	No. 39, 504 Yan'an Middle Street Jingan District, Shanghai PRC	200,000	0.025%
Mr. Liang Lu	No. 2201, Gate 1, Building 7 Court 8, Fengqiao Road, Fengtai District, Beijing PRC	300,000	0.0375%
Mr. Zhao Hui	No. 36, Qinlao Hutong Dongcheng District, Beijing PRC	200,000	0.025%
Ms. Peng Yan	No. 502, Unit 4, Building 6 Court 4, Nanhe Road Miyun Town, Miyun County Beijing PRC	200,000	0.025%
Mr. Fu Xin	Room 37, No. 46, Jiangnan Yicun Xuhui District, Shanghai PRC	200,000	0.025%
Mr. Shen Wei	Room 101, No. 40 1088 Xin'er Road Baoshan District, Shanghai PRC	200,000	0.025%
Mr. Li Jianli	Room 305, No. 10 Xinyongan Road Huangpu District, Shanghai PRC	200,000	0.025%
Ms. Wang Liqin	No. 505 Qingyun Road, Zhabei District, Shanghai PRC	200,000	0.025%
Ms. Shi Xuemei	No. 67, Wujiang Road Jing'an District, Shanghai PRC	200,000	0.025%
Mr. Qin Kuai	No. 1, 40 Tangli Jixiang Road Hongkou District, Shanghai PRC	200,000	0.025%
Mr. Tang Kan	No. 6, 1693 Yangshupu Road Yangpu District, Shanghai PRC	200,000	0.025%
Mr. Wang Xiang	Room 502, 879 Liyuan Road Luwan District, Shanghai PRC	200,000	0.025%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering(Note)
Mr. Li Bo	No.8, Gate 9, 52/F, Sanlihe Yiqu Xicheng District, Beijing PRC	200,000	0.025%
Ms. Liang Wanwen	Suite 501, No. 441 Fangcun Dadao Central Fangcun District, Guangzhou Guangdong PRC	200,000	0.025%
Ms. Liang Minling	No. 46, Luntouyuqingli Haizhu District, Guangzhou PRC	200,000	0.025%
Mr. Zheng Xiangyi	No.4, 10/F, Unit 1, Building 17 No. 169, Wanyu Road Chenghua District, Chengdu Sichuan PRC	200,000	0.025%
Mr. Zhu Xiaowei	No. 168-4, Changjiang Beijie Yuhong District, Shenyang Liaoning PRC	200,000	0.025%
Ms. Wang Chang	No. 302, Unit 5, Building 36 Xinshenghuojiayuan Erqu Lixia District, Jinan Shandong PRC	200,000	0.025%
Ms. Zhang Chune	No. 231, Building 1, Yileyuanerqu Tongzhou District, Beijing, PRC	200,000	0.025%
Ms. Wei Meiling	No. 1001, Unit 2, Building 10 Xishuijing Hutong Dongcheng District, Beijing PRC	200,000	0.025%
Ms. Li Yanhong	No 1202, Gate 3, Building 322 Fatou Cuicheng Xinyuan Chaoyang District, Beijing PRC	200,000	0.025%
Ms. Wu Xiaoguang	2014 Yan, East Campus China Agricultural University 17 Qinghua East Road, Haidian District, Beijing PRC	200,000	0.025%
Ms. Li Jingxian	Room 1104, Unit 4, Block 8, Fuze Yuyuan Yanjiao Development Zone Avenue Sanhe, Hebei PRC	200,000	0.025%

Grantee	Address	Number of Shares to be issued upon full exercise of the options granted under the Pre-IPO Share Option Scheme	Approximate percentage of shareholding upon the exercise of the options after the Capitalisation Issue and Global Offering[(Note)]
Mr. Tsang Chiu Ho	Room E, 23/F, Block 6, Sausalito 1 Yuk Tai Street, Ma On Shan New Territories Hong Kong	100,000	0.0125%
Mr. Liu Honggang	No. 203, 2/F, Building 11 Rose Garden, Vanke City Garden Airport Industrial Zone Shunyi District, Beijing PRC	100,000	0.0125%
Mr. Qi Peng	No. 13, Room 1, 8/F Jingan Alley Chaoyang District, Beijing PRC	100,000	0.0125%
Ms. Chen Yao	Room 701, Block C2 Yongjin Garden Shangcheng District, Hangzhou Zhejiang PRC	100,000	0.0125%
Total		47,500,000	5.94%

Note: The percentages of shareholding represent the percentages immediately upon completion of the Global Offering (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme) but before the exercise of any options granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme.

Except as set out above, no other options have been granted or agreed to be granted by us under the Pre-IPO Share Option Scheme.

Assuming an Offer Price of HK$1.85, being the mid-point of the indicative Offer Price range, our shareholding structure before and after the full exercise of all the options granted under the Pre-IPO Share Option Scheme will be as follows:

Shareholders	Shareholding structure immediately after completion of the Capitalisation Issue and the Global Offering but before the exercise of the options granted under the Pre-IPO Share Option Scheme		Shareholding structure immediately after completion of the Capitalisation Issue and the Global Offering and full exercise of the options granted under the Pre-IPO Share Option Scheme	
	Shares	*Percentage (approx.)*	*Shares*	*Percentage (approx.)*
Lovable International Holdings	17,999	0.002%	17,999	0.002%
Asian Glory	449,206,524	56.151%	449,206,524	53.004%
Eurojoy	78,777,637	9.847%	78,777,637	9.295%
Stars Link	29,999,100	3.750%	29,999,100	3.540%
Constant New	23,999,280	3.000%	23,999,280	2.832%
Merits Forest	2,999,910	0.375%	2,999,910	0.354%
Rainbow Forest	2,999,910	0.375%	2,999,910	0.354%
Silver Smart	2,999,910	0.375%	2,999,910	0.354%
Eminent Billion	2,999,910	0.375%	2,999,910	0.354%
Thrive Sky	2,999,910	0.375%	2,999,910	0.354%
Powerful Treasure	2,999,910	0.375%	2,999,910	0.354%
Grantees under the Pre-IPO Share Option Scheme as connected persons	–	–	21,000,000	2.478%
Grantees under the Pre-IPO Share Option Scheme as non-connected persons	–	–	26,500,000	3.127%
Public Shareholders	200,000,000	25.000%	200,000,000	23.599%
Total	800,000,000	100%	847,500,000	100%

We will not permit the exercise of any Pre-IPO Share Option Scheme by any of our connected persons if, upon such exercise, we would not be able to attain the minimum public float requirement of the Stock Exchange.

(c) Effect on the earnings per Share as a result of the Pre-IPO Share Options

Exercise of any of the options granted under the Pre-IPO Share Option Scheme will have a dilution effect on the shareholdings of the shareholders of our Company at the time of such exercise as well as on the earnings/loss per Share for the relevant financial year.

Assuming that all the options granted under the Pre-IPO Share Option Scheme had been exercised in full during the year ending 31 December 2017 and that 847,500,000 Shares, comprising 800,000,000 Shares to be in issue immediately after the Global Offering and 47,500,000 Shares to be issued upon the exercise of all of the options granted under the Pre-IPO Share Option Scheme, were deemed to have been in issue throughout the year ending 31 December 2017, this would not have material dilutive effect on our unaudited forecast basic earnings per Share.

Grantees of the options granted under the Pre-IPO Share Option Scheme who are connected persons of our Company will not be entitled to exercise those options if, as a result of such action, our Company will not be able to comply with the public float requirements of the Listing Rules.

(d) Summary of the major terms of the Pre-IPO Share Option Scheme

(i) Purpose

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise the employees of our Group towards its growth and success. The Pre-IPO Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in us with a view to achieving the following objectives:

(aa) motivate the Pre-IPO Eligible Participants to optimise their performance efficiency for the benefit of our Group; and

(bb) attract and retain or otherwise maintain relationships with the Pre-IPO Eligible Participants whose contributions are or will be beneficial to the long term growth of our Group.

(ii) Who may join

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price set out in paragraph (iv) below to employees of our Group.

(iii) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 47,500,000 Shares.

(iv) Price of Shares

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

(v) Rights are personal to grantee

An option is personal to the grantee and may be exercised in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(vi) Time of exercise of option and duration of the Pre-IPO Share Option Scheme

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

Vesting Date	**Percentage of options vested**
After the first anniversary of the grant date	40% of the total number of options granted
After the second anniversary of the grant date	30% of the total number of options granted
After the third anniversary of the grant date	30% of the total number of options granted

(vii) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject as aforesaid, Shares to be allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of issue, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of issue.

(viii) Effect of alterations to capital

In the event of any capitalisation issue, rights issue, open offer, subdivision, consolidation of shares, or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the price per Share of each outstanding option and/or the method of exercise of the option as our auditors or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to pre-IPO share option schemes (the "**Supplemental Guidance**"). Any such alterations will be made on the basis that a grantee shall have the same proportion of our issued share capital (as interpreted in accordance with the Supplementary Guidance) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate exercise price payable on the full exercise of any option is to remain as nearly as possible the same (but shall not be greater than) as it was before such event. No such alteration will be made 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 is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(ix) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(aa) the date of expiry of the option period relevant to that option;

(bb) the date of commencement of the winding-up of our Company in accordance with the Cayman Companies Law;

(cc) the date on which the grantee ceases to be an eligible participant for any reason including gross negligence, wilful misconduct or convicted of a criminal offence; or

(dd) the date on which our Board shall exercise our right to cancel the option in accordance with paragraph (xi) below.

(x) Alteration of the Pre-IPO Share Option Scheme

The terms and conditions of the Pre-IPO Share Option Scheme may be altered in any respect by resolution of our Board except that any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of options granted or any alteration for the advantage of the grantees of the options or eligible participants in respect of the definition of the eligible participants, option period and grantee shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Pre-IPO Share Option Scheme.

(xi) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(xii) Termination of the Pre-IPO Share Option Scheme

We may by resolution in general meeting or our Board at any time terminate the Pre-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(xiii) Administration of our Board

The Pre-IPO Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (except as otherwise provided in the rules of the Pre-IPO Share Option Scheme) shall be final and binding on all parties.

(xiv) Disclosure in annual and interim reports

We will disclose details of the Pre-IPO Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

3. Tax and other indemnities

Our Controlling Shareholders entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in the paragraph headed "B. Information about the business – 1. Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

4. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

5. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all our Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued upon the exercise of the Over-allotment Option or options which were granted under the Pre-IPO Share Option Scheme or which may be granted under the Post-IPO Share Option Scheme).

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees are HK$6 million and are payable by our Company.

6. Preliminary Expenses

The estimated preliminary expenses incurred and paid by our Company were approximately US$5,460.

7. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of our Shares being sold or transferred. Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

(b) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

9. Qualification of Experts

The following are the qualifications of the experts who have given their opinion or advice which are contained in, or referred to in this prospectus:

Name	**Qualifications**
Haitong International Capital Limited	Licenced under the SFO and permitted to carry out Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
Deloitte Touche Tohmatsu	Certified Public Accountants
CHENG & CHENG LIMITED	Certified Public Accountants
Guantao & Chow	Legal advisers to our Company as to PRC law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Euromonitor International Limited	Industry consultant

10. Consents of Experts

Each of the experts named in paragraph 9 of this Appendix 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 valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

11. Interests of experts in our Company

None of the persons named in paragraph 9 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

12. 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 so far as applicable.

13. 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 our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of our 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 or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;

(b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;

(c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest audited combined financial statements of our Group were made up);

(d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;

(e) the principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted to CCASS;

(f) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(g) our Directors have been advised that the use by our Company of a Chinese name in conjunction with its English name does not contravene the Cayman Companies Law; and

(h) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.

14. 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).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the section headed "Statutory and General Information – D. Other information – 10. Consents of experts" in Appendix IV of this prospectus;

(c) a copy of each of the material contracts referred to in the section headed "Statutory and General Information – B. Information about the business – 1. Summary of material contracts" in Appendix IV to this prospectus; and

(d) a copy of statement of adjustments relating to the accountant's report prepared by Deloitte Touche Tohmatsu and CHENG & CHENG LIMITED.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at 39/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles of Association;

(b) the accountant's report from Deloitte Touche Tohmatsu and CHENG & CHENG LIMITED, the text of which is set out in Appendix I to this prospectus;

(c) the report from Deloitte Touche Tohmatsu and CHENG & CHENG LIMITED in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(d) the audited consolidated financial statements of Kidsland Holdings and its subsidiaries and the audited consolidated financial statements of Silverkids and its subsidiaries for the three years ended 31 December 2014, 2015 and 2016 and the four months ended 30 April 2017 and the audited management accounts of our Company for the four months ended 30 April 2017;

(e) the statement of adjustments relating to the accountants' report prepared by Deloitte Touche Tohmatsu and CHENG & CHENG LIMITED for each of the three years ended 31 December 2016 and the four months ended 30 April 2017;

(f) the legal opinions issued by our PRC Legal Advisers in respect of our Group's business operations and property interests in the PRC;

(g) the letter of advice from Conyers Dill & Pearman, our Cayman Islands legal advisors, summarising certain aspects of Cayman Islands company law referred to in the section headed "Summary of the Constitution of our Company and Cayman Company Law" in Appendix III to this prospectus;

(h) the Cayman Companies Law;

(i) material contracts referred to in the section headed "Statutory and General Information – B. Information about the business – 1. Summary of material contracts" in Appendix IV to this prospectus;

(j) the Euromonitor Report;

(k) service contracts (including letters of appointment) with each of our Directors referred to in the section headed "Statutory and General Information – C. Further information about Directors and substantial Shareholders – 1. Directors – (b) Particulars of service contracts" in Appendix IV to this prospectus;

(l) the written consents referred to in the section headed "Statutory and General Information – D. Other information – 10. Consents of experts" in Appendix IV to this prospectus;

(m) the rules of the Post-IPO Share Option Scheme; and

(n) the rules of the Pre-IPO Share Option Scheme.

kidsland
凱知樂