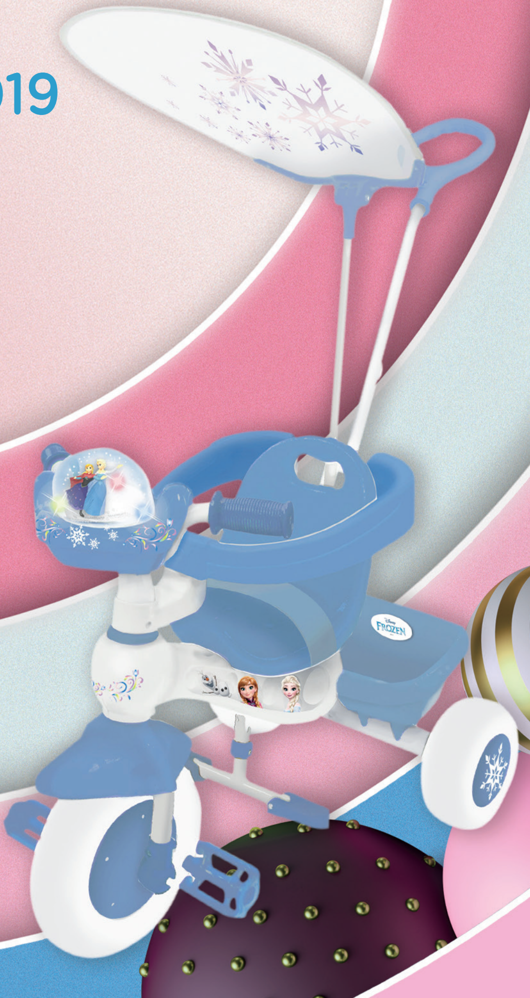
# Kiddieland International Limited

# 童園國際有限公司

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

**Stock Code : 3830**

## Annual Report 2019



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Lo Shiu Kee Kenneth *(Chief Executive Officer)*
Ms. Lo Shiu Shan Suzanne
Ms. Sin Lo Siu Wai Sylvia
Mr. Lo Hung *(Chairman)*
Ms. Leung Siu Lin Esther

### Independent Non-executive Directors

Ms. Tse Yuen Shan
Mr. Man Ka Ho Donald
Mr. Cheng Dominic (appointed on 19 July 2018)
Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018)

## AUDIT COMMITTEE

Ms. Tse Yuen Shan *(Chairwoman)*
Mr. Man Ka Ho Donald
Mr. Cheng Dominic (appointed on 19 July 2018)
Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018)

## REMUNERATION COMMITTEE

Mr. Cheng Dominic *(Chairman)*
(appointed on 19 July 2018)
Mr. Szeto Chi Yan Stanley *(Chairman)*
(resigned on 18 July 2018)
Ms. Tse Yuen Shan
Mr. Man Ka Ho Donald
Mr. Lo Shiu Kee Kenneth

## NOMINATION COMMITTEE

Mr. Man Ka Ho Donald *(Chairman)*
Ms. Tse Yuen Shan
Mr. Cheng Dominic (appointed on 19 July 2018)
Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018)

## AUTHORISED REPRESENTATIVES

Mr. Lo Shiu Kee Kenneth
Mr. Cheung Ka Cheong

## COMPANY SECRETARY

Mr. Cheung Ka Cheong

## AUDITOR

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

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14/F, Bank of America Tower
12 Harcourt Road, Central, Hong Kong

## REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## COMPLIANCE ADVISOR

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

## COMPANY WEBSITE

http://www.kiddieland.com.hk

## STOCK CODE

3830

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Kiddieland International Limited ("**Kiddieland**" or the "**Company**"), I am pleased to present the second consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 April 2019 following the successful listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 21 September 2017.

Financial Year 2019 has been a challenging year to our Group continually as the largest toy retailer in the world, Toys "R" Us Inc. ("**TRU**") has filed for Chapter 11 bankruptcy and declared liquidation by the end of financial year 2018. In the full financial year 2019, the Group has lost all the sales to TRU Group as compared to that in last year. While some of the lost business has been picked up by other existing and new customers, the revenue for the year still cannot be fully recovered.

In this year, the trade war between U.S. and China has hurt the global economy as they are the two largest economies in the world. It seems the Group is not directly affected by the trade war as toys is not a category that has been affected by the tariffs which U.S. has imposed. Most importantly, as U.S. is the major market to our Group in our Group's history, the sales performance to U.S. has been dropped adversely due to the worsen economic environment.

The Group's revenue for the financial year ended 30 April 2019 amounted to approximately HK$289.0 million, representing a decrease of approximately 9.8% over last year.

Raw material price kept rising at the beginning of the financial year. Luckily, we have seen the price has been dropped back to a more manageable level in the last few months of the financial year. Labour supply is another challenging issue to our Group in the year due to increasing wages level and scare supply. On the other hand, the currency RMB has depreciated against the US$, which helped the Group to manage part of the cost effectively.

The Group's loss for the financial year 2019 was HK$9.4 million as compared to loss attributable to shareholders of HK$13.7 million for last year.

In the financial year 2019, the sales results of the newly developed 6V rechargeable motorised ride-ons have been encouraging. We will continue to invest and develop this category in the coming year. The Group's internet sales have grown rapidly in the year as we have partnered with a third-party warehouse and major dotcom customers. The Directors notice that the trend of replacing the physical stores by the online stores, so the Group will expand our product offering through the online sales channel in the future.

Despite the different challenges we encounter from various fronts, we believe our success stems from our dedication to delivering high-quality products at competitive prices. More importantly, we recognise introducing creative new products to be essential in capturing customers' interest in our line, and we remain adamant and are committed to investing in developing a broad range of innovative toys every year.

On behalf of the Board, I would like to take this opportunity to express my sincere thanks and gratitude to all fellow Directors, management and our staff for their dedication and contribution to our Group's development. I would also like to thank all our shareholders, business partners, customers, suppliers and bankers for their trust and continuous support in the previous year.

Yours Faithfully

**Lo Hung**
*Chairman*
Hong Kong, 10 July 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Financial year 2019 has proven to be another challenging year for the Group and the toy industry in general. Arguably the largest toy retailer in the world, TRU had filed for Chapter 11 bankruptcy in September 2017, followed by an announcement made in March 2018 to declare liquidation (the "**TRU Crisis**").

Coupled with the turmoil which TRU has created has proven to have a rather long term effect, since the beginning of the second half of financial year 2018, several major raw materials are seeing substantial price increases. Plastic material accounts for the Group's largest raw material usage and as oil prices are slowly escalating during the year, plastic prices have elevated significantly which has inevitably eroded our margin. Labour supply in China is also unprecedentedly scarce and wages have been adjusted upwards driven by simple supply and demand factors. On the other hand, the currency RMB has depreciated noticeably against the US$ and as much of our cost is expensed in RMB, this helped the Group to manage part of the cost in a positive way.

The Group's revenue for the year was approximately HK$289.0 million, which has decreased by 9.8% as compared to last year (2018: approximately HK$320.4 million).

The decrease in revenue was mainly attributed to the decrease of revenue generated from North America which decreased by 11.1% to approximately HK$153.6 million (2018: HK$172.7 million) due to the TRU Crisis. At the same time, orders from various customers in European markets had decreased during the year because most of our customers in the region have adopted tightened procurement program as a result of the stagnant market sentiment and political instability in various places in Europe, mainly Brexit in U.K..

Moreover, the filing of Chapter 11 bankruptcy by TRU in September 2017 and its subsequent liquidation announcement in March 2018 sent additional shockwaves to global toy industry. The resulting overall sentiment of the toy industry dived and many customers had turned particularly conservative in placing orders. Even though some of the subsidiaries of TRU have been purchased by other retailers, the Group also decided to restrain the supply of goods to various former subsidiaries of TRU in the financial year 2019 as payment could potentially be questionable. As a result, the Group's revenue for the financial year 2019 decreased by 9.8%.

Lastly, the trade war between U.S. and China has also created plenty of uncertainties. It hurts the overall economy worldwide as U.S. and China are the two largest economies in the world. Even though toys is not a category that has been affected by the tariffs U.S. has imposed on China imported goods, our Toys Business performance has been adversely affected for the year due to the worsen economic environment.

The Group recorded a net loss of approximately HK$9.4 million for year ended 30 April 2019 (2018: net loss of HK$13.7 million). The decrease in net loss was attributed to the absence of the listing expenses of approximately HK$6.2 million recognised as well as the absence of provision of impairment on trade receivables of approximately HK$6.4 million in relation to bankruptcy filing cases of TRU Group, which partially offset with (i) the decrease in revenue; (ii) the increase in production material cost; and (iii) the non-cash share-based payment expenses of approximately HK$1.3 million recognised during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

As mentioned in Business Review, revenue generated from North America decreased by 11.1% to approximately HK$153.6 million (2018: HK$172.7 million). The decrease was mainly attributed to the cessation of sales to TRU in U.S., which had filed for Chapter 11 bankruptcy order.

On the other hand, revenue generated from Europe also decreased by 6.2% to approximately HK$106.8 million (2018: HK$113.8 million). The decrease was attributed to (i) the decrease in sales to various former subsidiaries of TRU in Europe that also filed for bankruptcy proceeding or being disposed after the end of last year; and (ii) the sluggish economy in Europe.

As a result of the above, the Group's overall revenue decreased by 9.8% to approximately HK$289.0 million (2018: HK$320.4 million).

### Gross profit

The Group's gross profit decreased by 18.1% to approximately HK$38.9 million for the year (2018: HK$47.5 million). The decrease was attributed to the decrease in revenue discussed above, which is partially offset by the reversal of the provision of impairment on inventories. The Group's profitability also suffered from the escalating prices in various production materials during the year. On the other hand, the royalty and license fees decreased by 23.1%. The decrease was attributed to the change of the product mix from licensed brand to Kiddieland brand. Therefore, the Group's gross profit margin for the year decreased to 13.4% as compared to 14.8% of last year.

### Selling and distribution expenses

Selling and distribution expenses decreased by 31.0% to approximately HK$11.6 million for the year (2018: HK$16.8 million). The decrease was mainly attributable to the decrease in commission and advertising & promotion expenses which were in line with the decrease in revenue.

### Administrative expenses

Administrative expenses, including the net impairment losses on financial assets decreased by 25.9% to approximately HK$33.7 million for the year (2018: HK$45.5 million). The decrease was mainly attributed to the absence of listing expenses of approximately HK$6.2 million and the absence of the provision of impairment on TRU's trade receivables of approximately HK$6.4 million as compared to that in last year. It is partially offset by the non-cash share-based payment expenses of approximately HK$1.3 million recognised regarding the employees' share options granted in the year.

### Finance costs

Net finance costs increased by 13.0% to approximately HK$5.2 million for the year (2018: HK$4.6 million). The increase was attributed to the increase in average bank borrowings level.

### Income tax expenses/(credits)

The Group recorded income tax expenses of approximately HK$0.5 million for the year whilst the Group recorded income tax credits (net of tax expenses) of HK$2.6 million for last year. The increase in income tax expenses was attributed to the decrease in loss before taxation and the recognition of withholding tax on the unremitted earnings in the PRC subsidiary.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Net loss

As mentioned above, due to the absence of listing expenses and the absence of the provision of impairment on TRU's trade receivables, offset by the decrease in revenue and the non-cash share-based payment expenses recognised, the loss after tax decreased by HK$4.3 million or 31.4% to approximately HK$9.4 million for the year (2018: net loss of HK$13.7 million).

### Inventories

Inventories as at 30 April 2019 were approximately HK$118.1 million, increased from approximately HK$113.5 million as at 30 April 2018. Inventory turnover days for the year were 168.9 days (2018: 147.8 days). The higher stock level was primarily due to arrangement of early production on the Group's products in order to better utilise the Group's production capacity.

### Trade and bills receivables

Trade and bills receivables as at 30 April 2019 were approximately HK$25.3 million, increased from approximately HK$19.3 million as at 30 April 2018. Trade and bills receivables turnover days for the year were 28.2 days (2018: 33.0 days). The decrease was due to the absence of provision of impairment on trade receivables regarding the TRU case.

### Trade and bills payables

Trade and bills payables as at 30 April 2019 were approximately HK$21.2 million, increased from approximately HK$20.1 million as at 30 April 2018. Trade and bills payables turnover days for the year were 30.1 days (2018: 25.6 days). The increase was due to the decrease in cost of sales while the trade and bills payables balance remained relatively stable.

### Liquidity and financial resources

During the year ended 30 April 2019, the Group mainly financed its working capital by internal resources and bank borrowings. As at 30 April 2019, cash and cash equivalents amounted to approximately HK$19.4 million (2018: HK$43.2 million). The decrease was mainly due to the working capital fund used for purchasing raw materials to meet the early production schedule and the utilisation of the listing proceeds according to the future plans during the year. The current ratio of the Group, as calculated by total current assets over total current liabilities, was 0.9 as at 30 April 2019 (2018: 1.0).

As at 30 April 2019, the Group's net current liabilities were approximately HK$19.3 million (2018: net current assets of HK$1.4 million). Total bank borrowings were approximately HK$138.2 million (2018: HK$123.2 million). The Group's financial gearing, based on the total bank borrowings compared to the total equity, was 108.0% (2018: 87.5%). All bank borrowings were subject to floating interest rates. The Group will maintain the availability of bank facilities and negotiate with banks to increase the borrowings limit for working capital needs, if necessary. Subsequent to the financial year end, the Group refinanced a borrowing of HK$30 million with a 5-year committed term loan which is repayable over 5 years by monthly equal instalment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOREIGN CURRENCY EXPOSURE

The Group's sales and purchases are mainly denominated in Hong Kong and US Dollar. And for production factory located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

As at 30 April 2019, the Group had not entered into any financial instrument for the hedging of foreign currency.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 April 2019, the Group employed 1,042 full-time management, administrative and production staff in Hong Kong and the PRC. The Group has seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices.

## ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

The Group is committed to achieving environmental sustainability and has implemented its Corporate Social Responsibility strategy across the organisation by embedding social responsibility into daily operations. The Group's production plant substantially complied with all applicable local and international environmental regulations.

The Group has installed solar panels as well as energy saving devices for injection machines at its factory in the PRC. The Group also encourages environmental protection practices such as setting up recycling bins, promoting using recycled papers and reducing energy consumption by switching off lightings and electrical appliances. The Group resolves to adopt and encourages practices that prevent or minimise pollution and optimise efficient use of energy and natural resources in order to provide employees with a safe and healthy working and living environment.

The Company's Environmental, Social and Governance Report is set out on pages 30 to 43 of this annual report.

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Group did not hold any significant investment during the year.

## CAPITAL COMMITMENTS

As at 30 April 2019, the commitments of the Group for acquisition of property, plant and equipment amounted to HK$0.7 million which have been contracted, but not provided for in the consolidated financial statements. In addition, the commitments of the Group for acquisition of land use right amounted to HK$25.6 million which have been authorised, but not contracted for in the consolidated financial statements.

## CONTINGENT LIABILITIES

As at 30 April 2019, the Group had contingent liabilities in relation to irrevocable standby letter of credit of HK$3.0 million. Save as aforesaid, the Group did not have any other significant contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS

In September 2017, the Company completed the Global Offering and raised total net proceeds of HK$81.4 million after deducting the listing expenses. As at 30 April 2019, the Group has utilised HK$64.9 million of the net proceeds from the listing according to the intended purposes, and HK$16.5 million of the unused net proceeds were deposited in licensed banks in Hong Kong. Set out below is the intended use of proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 11 September 2017 (the "**Prospectus**"), utilised amount and unutilised amount of the net proceeds as at 30 April 2019.

| Use of net proceeds | Percentage of net proceeds % | Net proceeds HK$'000 | Amount utilised HK$'000 | Amount remaining HK$'000 |
|---|---|---|---|---|
| Diversification of product offerings by developing new products and further entering into licensing arrangements | 51.8% | 42,200 | (42,200) | – |
| Strengthening sales and marketing of the Company's co-branded products and Kiddieland branded products | 27.2% | 22,100 | (9,220) | 12,880 |
| Acquiring machinery and upgrading existing machinery | 9.5% | 7,700 | (4,115) | 3,585 |
| Repair and maintenance of the factory, production tools and machinery | 11.5% | 9,400 | (9,400) | – |
| Total | 100% | 81,400 | (64,935) | 16,465 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK/FUTURE PROSPECTS AND STRATEGIES

The last two years have proven to be the most challenging two years of our Group's history. The diminishing demand of traditional toys is a true phenomenon as electronic gadgets continue to erode our market. The emergence of internet sales also plays a huge role in replacing the conventional physical store concept, as more brick & mortar retailers are starting to face difficulties with their normal operations.

Market sentiments remain weak in most parts of the world, and even with the strongest U.S. market, there lies the uncertainties with the trade war talks between China and U.S.. In the event that toys does become part of the next wave of tariffed list, the impact on both sales and margin can be adverse and substantial. The supply chain has always been very lean and efficient with U.S. toys sales, and there is unfortunately not much wiggle room, be it from the supplier or retailer side, to absorb the import duties. Despite the majority of the impact will eventually be transferred to the end consumers, the anticipated result to the Group would still be negative in reduced sales and at lower prices.

The Group continues to make inroads in developing its internet business sales, especially with the largest retailer in the world. The Directors see an incredible opportunity in expanding its offerings through online sales but the business model is also much more costly than traditional sales. The management has to make very cautious moves strategically to protect the interest of its shareholders.

From a production standpoint, The Group is glad to report that prices of plastic raw materials are finally dropping back to a more manageable level this year. Unfortunately labour supply remains unpredictable and scarce and raising wages is the only solution to solicit more workers to come. The Group also continues to upgrade and introduce more automation to the manufacturing process to replace some of the labour intensive procedures.

In order to grow our business, the Management will continue to evaluate up and coming animation characters and commit to new licensing partnerships when it sees fit. The 6V rechargeable battery powered ride-ons remains a viable business segment that the Group places a strong emphasis on, and it will continue to develop this category and build on its success. The Group is also revamping its metal tricycles design as it sees an opportunity arising that can lead to more incremental business.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Lo Shiu Kee Kenneth (盧紹基)**, aged 48, is one of the founders of our Group, an executive Director and the chief executive officer of our Company and is in charge of overseeing the overall business operation of our Group including sales and marketing activities of our Group, managing relationships with licensors and customers and is also responsible for managing licensing strategies and the production of our Group's production factory in Dongguan, Guangdong Province, the PRC. He has over 22 years of experience in the toy industry. He obtained a Master of Business Administration from Harvard University in 1998, a Master of Science in Engineering-Economic Systems from Stanford University in 1995, a Bachelor of Science in Engineering (Bioengineering) and a Bachelor of Science in Economics from University of Pennsylvania in 1993.

Mr. Kenneth Lo is son of Mr. Lo Hung, Chairman and executive Director, and Ms. Esther Leung, executive Director. Mr. Kenneth Lo is also brother of Ms. Suzanne Lo and Ms. Sylvia Lo, executive Directors.

**Lo Shiu Shan Suzanne (盧紹珊)**, aged 46, is one of the founders of our Group, an executive Director of our Company and is responsible for determining the cost calculation and pricing of our products, handling factory audits and overseeing of purchase activities of raw materials for our Group's production factory in Dongguan, Guangdong Province, the PRC. She has over 16 years of experience in the toy industry. During the period from July 1999 to March 2002, she was a Senior Associate of the Assurance and Business Advisory Services Department at PricewaterhouseCoopers. She obtained a Bachelor of Commerce from McGill University in 1995.

Ms. Suzanne Lo is daughter of Mr. Lo Hung, Chairman and executive Director, and Ms. Esther Leung, executive Director. Ms. Suzanne Lo is also sister of Mr. Kenneth Lo and Ms. Sylvia Lo, executive Directors.

**Sin Lo Siu Wai Sylvia (冼盧紹慧)**, aged 44, is one of the founders of our Group, an executive Director of our Company and is responsible for managing all design-related works in product development from concept to final production as well as liaising with licensors to ensure smooth operation at all stages of product development. She has over 19 years of experience in the toy industry. She obtained a Bachelor of Fine Arts and a Bachelor of Architecture from Rhode Island School of Design in 1998.

Ms. Sylvia Lo is daughter of Mr. Lo Hung, Chairman and executive Director, and Ms. Esther Leung, executive Director. Ms. Sylvia Lo is also sister of Mr. Kenneth Lo and Ms. Suzanne Lo, executive Directors.

**Lo Hung (盧鴻)**, aged 75, is an executive Director and the Chairman of our Company and is primarily responsible for overseeing the daily operations of our Group's production factory in Dongguan, Guangdong Province, the PRC and managing the personnel related to product development including designers, prototype craftsmen, engineers and mould makers. He joined our Group on 29 May 2002 and has over 52 years of experience in the toy industry.

Mr. Lo Hung is the spouse of Ms. Esther Leung, executive Director, and father of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo, executive Directors.

# DIRECTORS AND SENIOR MANAGEMENT

**Leung Siu Lin Esther (梁小蓮)**, aged 73, is an executive Director of our Company and is primarily responsible for managing the overall financials of our Group and monitoring the monthly shipments and inventory levels of our Group's production factory in Dongguan, Guangdong Province, the PRC. She joined our Group on 29 May 2002 and has over 48 years of experience in the toy industry. She graduated from the Nursing School of the Medical and Health Department in 1967 and became a registered nurse and midwife in Hong Kong in 1967 and 1969 respectively.

Ms. Esther Leung is the spouse of Mr. Lo Hung, Chairman and executive Director, and mother of Mr. Kenneth Lo, Ms. Suzanne Lo and Ms. Sylvia Lo, executive Directors.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Tse Yuen Shan (謝婉珊)**, aged 42, was appointed as an independent non-executive Director on 31 August 2017. She is also the chairwoman of the audit committee and a member of the remuneration committee and the nomination committee of our Company. She has 14 years of experience in accounting and has been the Assistant Finance Manager at Hutchison Whampoa Properties Limited, an Executive Officer at the Occupational Safety and Health Council and a Senior Associate at PricewaterhouseCoopers. She has been a member of the Hong Kong Institute of Certified Public Accountants since January 2003 and obtained a Bachelor of Business Administration in Accounting from Hong Kong University of Science and Technology in 1999.

**Man Ka Ho Donald (文嘉豪)**, aged 42, was appointed as an independent non-executive Director on 31 August 2017. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company. Mr. Man is also an independent non-executive director of Icicle Group Holdings Limited (stock code: 8429). He was admitted as a solicitor of the Supreme Court of England and Wales in 2003 and has over 12 years of experience in the legal field. Mr. Man is currently a registered foreign lawyer at Ince & Co's Hong Kong office. Mr. Man is a director of Jardine Travel Limited, Eupo-Air (Holdings) Limited and Eupo-Air Travel Services (Hong Kong) Limited. He is also the chairman of Zheng Qi Charitable Foundation Limited. Mr. Man obtained a Bachelor of Science in Business Studies from The City University London (now known as City, University of London) in 1998.

**Cheng Dominic (鄭子龍)**, aged 47, was appointed as an independent non-executive Director on 19 July 2018. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Company. He worked in Ernst & Young as Management Consultant before joining Airline Mechanical Company Limited in 1998 as Vice President of Operations. Currently, he is the General Manager of AMC Technology Company Limited. Mr. Cheng obtained a Bachelor of Mathematics from The University of Waterloo in 1994 and completed the certificate programme on production management held by The Hong Kong Management Association in 1997.

# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Cheung Ka Cheong (張家昌)**, aged 32, is the financial controller and company secretary of our Group. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2014. He joined our Group in February 2013 and is in charge of the accounts department and is responsible for overseeing the accounts department, preparing financial statements, maintaining relationship with bankers and all company secretarial works of our Group. Prior to joining our Group, he had worked in Hutchison Whampoa Properties Limited and Chen Hsong Holdings Limited (stock code: 0057). He obtained a Bachelor of Business Administration (Honours) from City University of Hong Kong in 2008.

**Cheung Yin Ha Jenny (張艷霞)**, aged 59, has been the sales director of our Group since she joined our Group on 20 March 2001. She is mainly responsible for the sales activities of our Group's products to customers in the United Kingdom, Western and Central Europe. Prior to joining our Group, she worked as a shipping clerk in a toy manufacturing company starting from 1978, and was later promoted as a sales executive in 1980 and a sales and marketing manager in 1998. She has over 38 years of experience in the toy industry.

**Chong Lai Nei (莊麗妮)**, aged 51, has been the sales director of our Group since she joined our Group on 20 March 2001. Prior to joining our Group, she worked as a merchandiser in Wave Imagination Limited from 1992 to 1993. During the period from 1993 to 1998, she worked as a sales executive in a toy manufacturing company and was later promoted as a sales manager. She has over 25 years of experience in the toy industry and is mainly responsible for the sales activities of our Group's products to customers in North America, Japan and Australia. She obtained a Master of Social Science in Money, Banking and Finance from University of Birmingham in 1992.

**Fong Chong Nin Johnny (方壯年)**, aged 58, has been the logistics manager of our Group since he joined our Group on 20 March 2001. He is in charge of the logistics department and the shipping activities of our Group and has over 30 years of experience in the toy industry. Prior to joining our Group, during the period from 1988 to 1998, he had been an assistant shipping manager of a toy manufacturing company and was later promoted as a shipping manager.

# REPORT OF THE DIRECTORS

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 30 April 2019.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacture and distribution of toys. The Company operates its business through two segments. Outdoor-and-sports Toy Segment is mainly engaged in the manufacture and distribution of ride-ons, rockers, trikes, scooters and walkers. Infant-and-preschool Toy Segment is mainly engaged in the manufacture and distribution of interactive playsets, activity toys, musical toys and action vehicles. The Company distributes its products within domestic market and to overseas markets.

The principal activities and other particulars of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 April 2019 are set out in the consolidated statement of comprehensive income on page 49 of this annual report.

## FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 30 April 2019.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 October 2018.

During the year ended 30 April 2018, a special interim dividend of HK$100,000,000 was declared and approved by the Board on 15 September 2017 before the listing on the Main Board of the Hong Kong Stock Exchange and HK$98,593,000 was net-off with the amounts due from the shareholders and related entities owned by them.

## DIVIDEND POLICY

The Company has adopted a Dividend Policy which allows the shareholders of the Company to share the profits of the Company whilst retaining adequate reserves for the Group's future growth. The declaration and amount of dividends shall be determined at the sole discretion of the Board. Pursuant to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

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

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

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

(d) the Group's liquidity position;

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

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

(g) other factors that the Board considers relevant.

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

# REPORT OF THE DIRECTORS

## CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

For the purpose of determining the shareholder's eligibility to attend and vote at the annual general meeting (the "**AGM**") to be held on Friday, 27 September 2019, the register of members of the Company will be closed from Wednesday, 25 September 2019 to Friday, 27 September 2019, both days inclusive. In order to qualify for attending and voting at the AGM, shareholder should ensure that all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 24 September 2019.

## BUSINESS REVIEW

Business review of the Group is provided in the Management Discussion and Analysis on page 4 of this annual report.

## FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set on page 106 of this annual report.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds raised from the Global offering amounted to approximately HK$81.4 million. As at 30 April 2019, the net proceeds had been utilised according to the designated uses set out in the Prospectus. Details of the intended use, utilised amount and unutilised amount are set out on page 8 of this annual report.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 22 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity, note 23 and note 35 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves are shown in note 23 to the consolidated financial statements.

## DONATIONS

The Group did not make any charitable donations during the year ended 30 April 2019 (2018: HK$1,000,000).

## BANK LOANS

Details of bank loans and other borrowings of the Group as at 30 April 2019 are set out in note 25 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year are set out in note 17 to the consolidated financial statements.

## SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 April 2019 are set out in note 34 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers were as follows:

| | |
|---|---|
| Sales | |
| — the largest customer | 24.3% |
| — five largest customers in aggregate | 42.8% |
| Purchases | |
| — the largest supplier | 13.2% |
| — five largest suppliers in aggregate | 39.4% |

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

## DIRECTORS

The Directors during the year ended 30 April 2019 and up to the date of this annual report are:

### Executive Directors

Mr. Lo Shiu Kee Kenneth *(Chief Executive Officer)*
Ms. Lo Shiu Shan Suzanne
Ms. Sin Lo Siu Wai Sylvia
Mr. Lo Hung *(Chairman)*
Ms. Leung Siu Lin Esther

### Independent Non-executive Directors

Ms. Tse Yuen Shan
Mr. Man Ka Ho Donald
Mr. Cheng Dominic (appointed on 19 July 2018)
Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018)

At the forthcoming annual general meeting of the Company, Mr. Lo Hung, Mr. Lo Shiu Kee Kenneth and Ms. Tse Yuen Shan will retire in accordance with Article 108 of the Articles of Association, and being eligible, will offer themselves for re-election.

## DIRECTORS', SENIOR MANAGEMENT'S AND COMPANY SECRETARY'S PROFILE

Profile details of the Directors of the Company, the senior management and company secretary of the Group are set out on pages 10 to 12 of this annual report.

## DIRECTORS' SERVICE AGREEMENTS

Each of our executive Directors has entered into a service agreement with our Company on 31 August 2017 for a term of three years commencing from 21 September 2017 (the "**Listing Date**") unless terminated in accordance with the terms of the service agreement. Their appointments are subject to the provisions of retirement by rotation of Directors under the Articles of Association.

# REPORT OF THE DIRECTORS

In accordance with the service agreements, each of our executive Directors is entitled to a discretionary performance bonus as may be determined by our Board at its absolute discretion having regard to the performance of the Group and the performance of the Director, subject to the review and approval of the remuneration committee of our Board. Each of Mr. Lo Shiu Kee Kenneth, Ms. Lo Shiu Shan Suzanne and Ms. Sin Lo Siu Wai Sylvia is also entitled to an end-of year bonus in an amount equal to the Director's prevailing monthly salary.

Each of our independent non-executive Directors (Ms. Tse Yuen Shan and Mr. Man Ka Ho Donald) has signed a letter of appointment with our Company on 31 August 2017 for a period commencing from the date of the letter of appointment and ending on the date falling three years from the Listing Date and Mr. Cheng Dominic has signed a letter of appointment with our Company on 18 July 2018 for a term of three years commencing from 19 July 2018, unless otherwise terminated in accordance with the terms of the letter of appointment. Their appointments are subject to the provisions of retirement by rotation of Directors under the Articles of Association.

Further details of the executive Directors' service agreements and the independent non-executive Directors' letters of appointment are set out in the section headed "Particulars of Directors' service agreements and letters of appointment" of "Statutory and General Information" in the Prospectus.

## EMOLUMENT POLICY

The emolument policy for the employees of the Group is set by the Board and reviewed by the remuneration committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Board and reviewed by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to its Directors and eligible employees, details of the scheme are disclosed under the section headed "Share Option Scheme" below.

## RETIREMENT BENEFIT SCHEME

The Group operates Mandatory Provident Fund Schemes for the employees of the subsidiaries in Hong Kong. The employees of the subsidiaries in the People's Republic of China (the "**PRC**") are members of the retirement schemes organised by the government of the PRC. The PRC subsidiaries are required to contribute a certain percentage of payroll to the retirement schemes to fund the benefits.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 April 2019, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

## DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as the related party transactions as disclosed in note 32 to the consolidated financial statements, no Director and/or any of his/her connected entity had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at anytime during the year.

# REPORT OF THE DIRECTORS

## RELATED PARTY TRANSACTIONS

Details of the related party transactions entered by the Group during the year ended 30 April 2019 are set out in note 32 to the consolidated financial statements.

## CONTINUING CONNECTED TRANSACTIONS

The Company has continuing connected transactions ("**CCTs**") (as defined under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**")) during the financial year, brief particulars of which are as follow:

### Lease of office premises from Top Dragon

As reported in the announcement made on 8 June 2018, Kiddieland Toys Limited ("**Kiddieland Toys**"), a wholly-owned subsidiary of the Company, had on 8 June 2018 entered into a renewal tenancy agreement with Top Dragon Enterprise Investment Limited ("**Top Dragon**") in respect of the renewal of the leasing of a portion of 14th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong with a gross floor area of approximately 8,608 sq. ft. (the "**Tenancy Agreement**") for a term of 24 months from 1 June 2018 to 31 May 2020 at a rental of HK$480,000 per month, inclusive of rates, government rent, management fees and air-conditioning charges, payable in advance on the first day of each and every calendar month.

The total amount of rental paid by Kiddieland Toys to Top Dragon under the Tenancy Agreement for the year ended 30 April 2019 was HK$5,760,000.

As Top Dragon is owned as to 50% by each of Mr. Lo Hung (an executive Director and one of the controlling shareholders of the Company) and his spouse, Ms. Leung Siu Lin Esther (also an executive Director and one of the controlling shareholders of the Company), Top Dragon is regarded as a connected person of the Company within the meaning of the Listing Rules. Therefore, the Tenancy Agreement and the transactions contemplated thereunder constitute CCTs of the Company under the Listing Rules.

PricewaterhouseCoopers ("**PwC**"), Certified Public Accountants, the Company's independent auditor, was engaged to report on the Company's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PwC has issued a letter to the Board (with a copy provided to the Hong Kong Stock Exchange) in accordance with Rule 14A.56 of the Listing Rules and confirming that nothing has come to their attention that causes them to believe that the CCTs:

(i) have not been approved by the Board;

(ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(iii) have exceeded the annual cap.

The independent non-executive Directors have reviewed the CCTs and confirmed that the CCTs have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

# REPORT OF THE DIRECTORS

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 30 April 2019.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" below, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance (the "**SFO**") or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As of 30 April 2019, the interests and/or short positions of the Directors and/or the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

### Long position in shares of associated corporation — KLH Capital Limited ("KLH Capital")

| Name of Director | Capacity | Nature of interests | Number of shares (ordinary) | Approximate percentage of shareholding in KLH Capital |
|---|---|---|---|---|
| Mr. Lo Shiu Kee Kenneth | Beneficial owner | Personal | 2,500 | 25% |
| Ms. Lo Shiu Shan Suzanne | Beneficial owner | Personal | 2,500 | 25% |
| Ms. Sin Lo Siu Wai Sylvia | Beneficial owner | Personal | 2,500 | 25% |
| Mr. Lo Hung | Beneficial owner | Personal and family (note) | 2,500 | 25% |
| Ms. Leung Siu Lin Esther | Beneficial owner | Personal and family (note) | 2,500 | 25% |

Note: Each of Mr. Lo Hung and Ms. Leung Siu Lin Esther holds 1,250 ordinary shares in KLH Capital representing 12.5% of the issued share capital of KLH Capital. As each of them is the spouse of the other of them, each of them is deemed under the SFO to be interested in such 1,250 shares in KLH Capital held by the other of them.

# REPORT OF THE DIRECTORS

Save as disclosed above, as at 30 April 2019, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 April 2019, the interests and short positions of substantial shareholders (other than the Directors and the chief executive of the Company) in the Shares or the underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### Long position in the Shares

| Name of shareholder | Capacity | Number of Shares (ordinary) | Approximate percentage of shareholding in the Company |
|---|---|---|---|
| KLH Capital | Beneficial owner | 750,000,000 (note) | 75% |

Note: Mr. Lo Shiu Kee Kenneth, Ms. Lo Shiu Shan Suzanne, Ms. Sin Lo Siu Wai Sylvia, Mr. Lo Hung and Ms. Leung Siu Lin Esther, all being executive Directors of the Company, hold 25%, 25%, 25%, 12.5% and 12.5% respectively of the issued shares in KLH Capital.

Saved as disclosed above, as at 30 April 2019, the Company is not aware of any other party (not being a Director and the chief executive of the Company), who had interests or short positions in the Shares and underlying Shares of the Company, which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## SHARE OPTION SCHEME

The shareholders of the Company approved and adopted a share option scheme (the "**Share Option Scheme**") on 31 August 2017 (the "**Adoption Date**") to enable the Company to grant share options (the "**Option(s)**") to the Directors, employees or other selected participants as incentives and rewards for their contribution to the Group. The Share Option Scheme took effect on the Listing Date. On 19 July 2018, the Company granted Share Options to certain selected employees which enable them to subscribe 20,000,000 ordinary Shares at an exercise price of HK$0.28 per Share.

# REPORT OF THE DIRECTORS

During the year ended 30 April 2019, the details of the movement of Share Options granted by the Company to eligible persons are as follows:

| | | | Number of Shares issuable under the Share Options granted | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Eligible persons | Date of grant | Exercisable period | Balance as at 1 May 2018 | Granted during the year (note(ii)) | Exercised during the year | Lapsed during the year | Cancelled during the year | Balance as at 30 April 2019 | Exercise price per Share HK$ |
| Continuous Contract Employees, excluding Directors | 19 July 2018 | (note (i)) | – | 20,000,000 | – | (1,500,000) | – | 18,500,000 | 0.280 |
| | | | – | 20,000,000 | – | (1,500,000) | – | 18,500,000 | |

Notes:

(i) The above Share Options are exercisable from 19 July 2018 to 18 July 2021 (both dates inclusive).

(ii) The closing price per Share as stated in the daily quotation sheet issued by the Hong Kong Stock Exchange immediately before the date on which the Share Options were granted was HK$0.280.

(iii) The cash consideration paid by each of the eligible persons for the grant of Share Options was HK$1.00.

(iv) None of the grantees above is a Director, chief executive or substantial shareholder of the Company, or an associate (as defined in the Listing Rules) of any of them.

(v) The fair value of the Share Options granted during the year determined by the Binomial Options Pricing Model was HK$0.066 per Share Option. The significant inputs into the model are as follows:

| | |
|---|---|
| Share price at the grant date | HK$0.280 |
| Exercise price | HK$0.280 |
| Dividend yield | 0% |
| Volatility | 44% |
| Annual risk-free interest rate | 1.98% |

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 750 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the Share Options granted during the year amounted to HK$1,320,000 was recognised as employment benefit expense at the grant date together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Binomial Options Pricing Model.

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and for such other purposes as our Board may approve from time to time.

# REPORT OF THE DIRECTORS

The Board may, at its discretion, invite the following categories of participants (the "**Participant(s)**"):

(a) any Director, chief executive or employee (whether full-time or part-time) of each member of our Group;

(b) any discretionary objects of a discretionary trust established by any Director, chief executive or employee (whether full-time or part-time) of each member of our Group; and

(c) a company beneficially owned by any Director, chief executive or employee (whether full-time or part-time) of each member of our Group,

to take up Options granted to the Participant to subscribe for Shares pursuant to the terms of the Share Option Scheme to subscribe for Shares at a price determined in accordance with the Scheme.

In determining the basis of eligibility of each Participant, our Board would take into account such factors as our Board may at its discretion consider appropriate.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further Options will be granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provision of the Share Option Scheme, and Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

An offer of the grant of an Option ("**Offer**") shall be made to a Participant by letter (the date of which shall be deemed to be the date on which the grant of an Option (subject to acceptance by the Grantee) is made) in such form as our Board may from time to time determine (the "**Offer Letter**") specifying the number of Shares under the Option, the subscription price, the vesting schedule (if any), the conditions to vesting (if any), and the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme (the "**Option Period**") and requiring the Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. An Offer must be made on a Business Day and shall remain open for acceptance by the Participant to whom an Offer is made for a period from the date of the Offer ("**Offer Date**") to such date as our Board may determine and specify in the Offer Letter (both days inclusive) (the "**Acceptance Period**"), provided that no such Offer shall be open for acceptance after the 10th anniversary from the Adoption Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof, whichever is earlier.

An Offer shall be deemed to have been accepted by the Grantee and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the Offer Letter comprising acceptance of the Offer duly signed by the Grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting thereof is received by the Company within the Acceptance Period. Such remittance shall in no circumstances be refundable or be considered as part of the subscription price.

# REPORT OF THE DIRECTORS

Subject to any adjustments, the subscription price in respect of each Share issued pursuant to the exercise of Options granted hereunder shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of:

(a) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet on the Offer Date, which must be a business day;

(b) a price being the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the offer date (provided that the new issue price shall be used as the closing price for any business day falling within the period before listing of the Shares where our Company has been listed for less than 5 business days as at the Offer Date); and

(c) the nominal value of a Share.

Unless otherwise determined by our Board and specified in the Offer Letter at the time of the Offer, there is neither any performance targets that need to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised. An Option may be exercised in whole or in part in the manner as set out in the Offer Letter by the Grantee (or his personal representative(s)) giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised.

Subject to the terms and conditions upon which such Option was granted, an Option may be exercised by the Grantee at any time during the Option Period.

The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option scheme of the Company and/or any of its subsidiaries shall not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Initial Public Offering (such 10% being 100,000,000 Shares). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.

The total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

Where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of our Company (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting.

The number of Shares subject to the Options to be granted to such Participant and the terms (including the subscription price) of the Options to be granted to such Participant shall be fixed before shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. In such a case, our Company shall send a circular to our shareholders containing, amongst other terms, the identity of such Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant) and such other information and the disclaimer as required under the Listing Rules.

# REPORT OF THE DIRECTORS

A summary of the principal terms and conditions of the Share Option Scheme is set out in section headed "Share Option Scheme" of "Statutory and General Information" in the Prospectus.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 30 April 2019.

## EVENTS AFTER REPORTING PERIOD

As of the date of this report, there is no significant event occurring after 30 April 2019.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there has been sufficient public float of not less than 25% of the Company's issued Shares since the Listing Date and up to the date of this report as required under the Listing Rules.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 24 to 29 of this annual report.

## AUDITOR

The consolidated financial statements for the year ended 30 April 2019 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for re-appointment of PricewaterhouseCoopers as the independent auditor of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
**Kiddieland International Limited**
**Lo Hung**
*Chairman*
Hong Kong, 10 July 2019

# CORPORATE GOVERNANCE REPORT

The Board of the Company is committed to promoting high standards of corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Throughout the year ended 30 April 2019, the Company has been in compliance with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code which applies to all Directors and all relevant employees who are informed that they are subject to its provisions. Having made specific enquiry of all Directors, the Company's Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 30 April 2019.

## BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Company and its business by directing and supervising its affairs. Code provision A.2.1 stipulates that's the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The positions of Chairman and Chief Executive Officer are held by Mr. Lo Hung and Mr. Lo Shiu Kee Kenneth respectively. The Chairman provides overall leadership and is responsible for effective functioning and leadership of the Board. The Chief Executive Officer focuses on business development and formulating strategic plans. The day-to-day management however has been delegated to the executive Directors.

The Board comprises eight Directors: five executive Directors and three independent non-executive Directors. One of the independent non-executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Board meets regularly to review financial statements, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided in a timely manner. The company secretary keeps the minutes of Board meetings.

Other than regular meetings, the Chairman also meets with independent non-executive Directors without the presence of executive Directors, to facilitate an open discussion among the independent non-executive Directors on issues relating to the Group.

The Company has arranged appropriate insurance coverage for its Directors and officers.

During the year ended 30 April 2019, four Board meeting and one general meeting was held.

# CORPORATE GOVERNANCE REPORT

Attendance of individual Directors at the Board meeting and general meeting is listed below:

| | Attendance |
|---|---|
| Mr. Lo Shiu Kee Kenneth | 5/5 |
| Ms. Lo Shiu Shan Suzanne | 5/5 |
| Ms. Sin Lo Siu Wai Sylvia | 5/5 |
| Mr. Lo Hung | 5/5 |
| Ms. Leung Siu Lin Esther | 5/5 |
| Ms. Tse Yuen Shan | 5/5 |
| Mr. Man Ka Ho Donald | 5/5 |
| Mr. Cheng Dominic (appointed on 19 July 2018) | 2/2 |
| Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018) | 3/3 |

Ms. Leung Siu Lin Esther is the spouse of Mr. Lo Hung, while Mr. Lo Shiu Kee Kenneth, Ms. Lo Shiu Shan Suzanne and Ms. Sin Lo Siu Wai Sylvia are children of Mr. Lo Hung and Ms. Leung Siu Lin Esther.

The independent non-executive Directors are appointed for a specific term and are subject to the provisions of retirement by rotation as Directors under the Articles of Association.

## Continuous professional development of Directors

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

All Directors have participated in continuous professional development to ensure that they are informed and aware of the amendments and updates of the Listing Rules, Hong Kong Companies Ordinance and the CG Code.

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

According to the records maintained by the Company, the Directors have participated in continuous professional development by attending external seminars and reading materials relating to the discharge of their duties and responsibilities and regulatory updates during the year.

## Remuneration Committee

The remuneration committee was set up pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. Our remuneration committee currently consists of four members, comprising three independent non-executive Directors and one executive Director, namely Mr. Cheng Dominic, who is the chairman of our remuneration committee, Ms. Tse Yuen Shan, Mr. Man Ka Ho Donald and Mr. Lo Shiu Kee Kenneth.

# CORPORATE GOVERNANCE REPORT

The primary duties of the remuneration committee are mainly (i) to develop a transparent policy in relation to remuneration; (ii) to review the remuneration policy and the structure relating to all Directors and senior management of our Group; (iii) to review performance-based remuneration payable to Directors and senior management of our Group; and (iv) to make recommendations on other remuneration-related arrangement, such as housing allowance and bonuses payable to Directors and senior management of our Group.

The committee met once during the year ended 30 April 2019. Attendance of individual members is listed below:

| | Attendance |
|---|---|
| Mr. Lo Shiu Kee Kenneth | 1/1 |
| Ms. Tse Yuen Shan | 1/1 |
| Mr. Man Ka Ho Donald | 1/1 |
| Mr. Cheng Dominic (appointed on 19 July 2018) | 0/0 |
| Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018) | 1/1 |

After the year ended 30 April 2019, a meeting of the remuneration committee was held on 10 July 2019 with 100% attendance to review the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management and other related matters.

The principal duty of the committee is to review and make recommendations to the Board on the Group's policy and structure for the remuneration of all Directors and senior management. In doing this, professional advice may be sought if considered necessary. No Director or any of their associates is involved in deciding their own remuneration.

## Nomination Committee

The nomination committee was established by the Board pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. Our nomination committee currently consists of three members, comprising all the independent non-executive Directors, namely Mr. Man Ka Ho Donald, who is the chairman of our nomination committee, Ms. Tse Yuen Shan and Mr. Cheng Dominic.

The primary duties of the nomination committee are (i) to review the structure, size and composition of the Board on a regular basis; (ii) to make recommendations to our Board relating to the appointment and removal of Directors; (iii) to identify individuals suitably qualified to become members of the Board; and (iv) to assess the independence of our independent non-executive Directors.

The committee met once throughout the year ended 30 April 2019. Attendance of individual members is listed below:

| | Attendance |
|---|---|
| Ms. Tse Yuen Shan | 1/1 |
| Mr. Man Ka Ho Donald | 1/1 |
| Mr. Cheng Dominic (appointed on 19 July 2018) | 0/0 |
| Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018) | 1/1 |

# CORPORATE GOVERNANCE REPORT

After the year ended 30 April 2019, a meeting of the nomination committee was held on 10 July 2019 with 100% attendance to review the structure, size and composition of the Board, the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for re-election at the annual general meeting. The board diversity policy was also reviewed at the meeting.

### Board Diversity Policy

The Board has adopted a board diversity policy in 2017 as it recognises the benefits of having diversity in the composition of the Board. It aims to achieve diversity of its Board members through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service.

The nomination committee will review this policy from time to time and monitor its implementation.

### Audit Committee

The audit committee was set up pursuant to a resolution of our Directors passed on 31 August 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. Our audit committee consists of three members, comprising all the independent non-executive Directors, namely Ms. Tse Yuen Shan, who is the chairwoman of our audit committee, Mr. Man Ka Ho Donald and Mr. Cheng Dominic.

The primary duties of the audit committee include (i) reviewing and supervising the financial reporting process and overseeing the audit process of our Group; (ii) overseeing the internal control procedures and corporate governance of our Group; (iii) supervising the internal control systems of our Group; and (iv) performing other duties and responsibilities as assigned by our Board.

The committee met twice throughout the year ended 30 April 2019. Attendance of individual members is listed below:

| | Attendance |
|---|---|
| Ms. Tse Yuen Shan | 2/2 |
| Mr. Man Ka Ho Donald | 2/2 |
| Mr. Cheng Dominic (appointed on 19 July 2018) | 1/1 |
| Mr. Szeto Chi Yan Stanley (resigned on 18 July 2018) | 1/1 |

After the year ended 30 April 2019, a meeting of the audit committee was held on 10 July 2019 with 100% attendance to review this report, the Directors' report and the accounts for the year ended 30 April 2019 together with the annual results announcement, with a recommendation to the Board for approval.

## AUDITOR'S REMUNERATION

For the year ended 30 April 2019, fees paid/payable to the auditors of the Group for audit and non-audit services amounted to HK$1,130,000 and HK$439,000 respectively. The non-audit services mainly include interim review, tax compliance and company secretarial services.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to oversee and to ensure that sound and effective risk management and internal control systems are maintained on an on-going basis so as to safeguard the Group's assets and the interests of shareholders. The Board is responsible for reviewing the risk management and the internal control policies and has delegated the day-to-day management of internal control and operational risks to the executive Directors.

The Directors are satisfied with the effectiveness of the Group's internal controls and consider that the key areas of the Group's system of internal controls are reasonably implemented.

The internal controls should provide reasonable but not absolute assurance against material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting and ensure effective compliance with the Listing Rules and all other applicable laws and regulations.

The Group does not have an in-house internal audit function. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner. The independent auditor's report states the auditor's reporting responsibilities.

## COMPANY SECRETARY

Mr. Cheung Ka Cheong is the company secretary of the Company. He is responsible for the company secretarial matters of our Group and assisting our Directors in implementation of and on-going compliance with internal control measures of our Group.

During the year ended 30 April 2019, Mr. Cheung has complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

## COMMUNICATIONS WITH SHAREHOLDERS

The Company regards the annual general meeting as an important event in which the Chairman and all Directors will make an effort to attend. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual Directors. In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at general meetings will be passed by poll. The poll results will be published on the websites of the Company and the Hong Kong Stock Exchange on the same date of the meetings. The Company's corporate communications including interim and annual reports, announcements and circulars as required under the Listing Rules are published on the websites of the Company and the Hong Kong Stock Exchange.

## SHAREHOLDERS' RIGHTS

The Company established a shareholder communication policy in order to provide shareholders with information about the Company and to enable them to exercise their rights in an informed manner.

The Company has also established procedures on how shareholders can convene a special general meeting; procedures for putting forward proposals at a general meeting by a shareholder; and procedures for shareholders to propose a person for election as a Director.

# CORPORATE GOVERNANCE REPORT

Details of these procedures and policy are available under the Corporate Governance section of the Company's website at http://www.kiddieland.com.hk.

## CONSTITUTIONAL DOCUMENTS

The Company's constitutional documents consist of its Amended and Restated Memorandum and Articles of Association, which was adopted by the Company on 31 August 2017 and became effective on 21 September 2017.

On behalf of the Board

**Lo Hung**
*Chairman*
Hong Kong, 10 July 2019

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board recognises that it has an overall responsibility for the Environmental, Social and Governance ("**ESG**") strategy and reporting of the Group. The scope of this ESG report covers the operations of the Group in the design, development, manufacture and sale of a diverse portfolio of outdoor-and-sports toy products and infant-and-preschool toy products. It provides an overview of our key ESG performance in environmental protection, employment and labour practices, operating practices and community investment for the year ended 30 April 2019. This ESG report was prepared in accordance with the ESG Reporting Guide under Appendix 27 to the Listing Rules.

The Board has delegated the day-to-day responsibility of the implementation to the ESG Working Group (the "**Working Group**"). The Working Group is composed of senior management and core members from different departments of the Group and is responsible for facilitating the adoption of ESG strategies and policies throughout the Group. The Working Group reports to the Board on the implementation of ESG initiatives and the corresponding performance.

The Board regularly reviews the Group's ESG performance, examines and approves the Group's annual ESG report.

We engaged our stakeholders on an on-going basis to collect their views and expectations on our ESG performance and reporting.

## STAKEHOLDER ENGAGEMENT

Stakeholders' opinions are the solid foundation for the Group's sustainable development and success. The stakeholder engagement helps the Group to develop a business strategy that meets the needs and expectations of stakeholders, enhances the ability to identify risk and strengthens important relationships. The Group communicates with its stakeholders through various channels, shown as below.

| Stakeholder | Communication Channel |
|---|---|
| **Government and regulatory agency** | • Annual reports, interim reports, ESG reports and other public information<br>• Supervision and inspection |
| **Shareholder and investor** | • Annual general meetings and other general meetings of shareholders<br>• Company website<br>• Press releases/announcements<br>• Annual reports, interim reports, ESG reports and other public information |
| **Employee** | • Training<br>• Meetings<br>• Performance evaluation<br>• Survey |
| **Customer** | • Fax, email and telephone |
| **Supplier** | • Meetings<br>• Site visit<br>• Survey |
| **Community** | • Participation in community programmes<br>• ESG Reports |

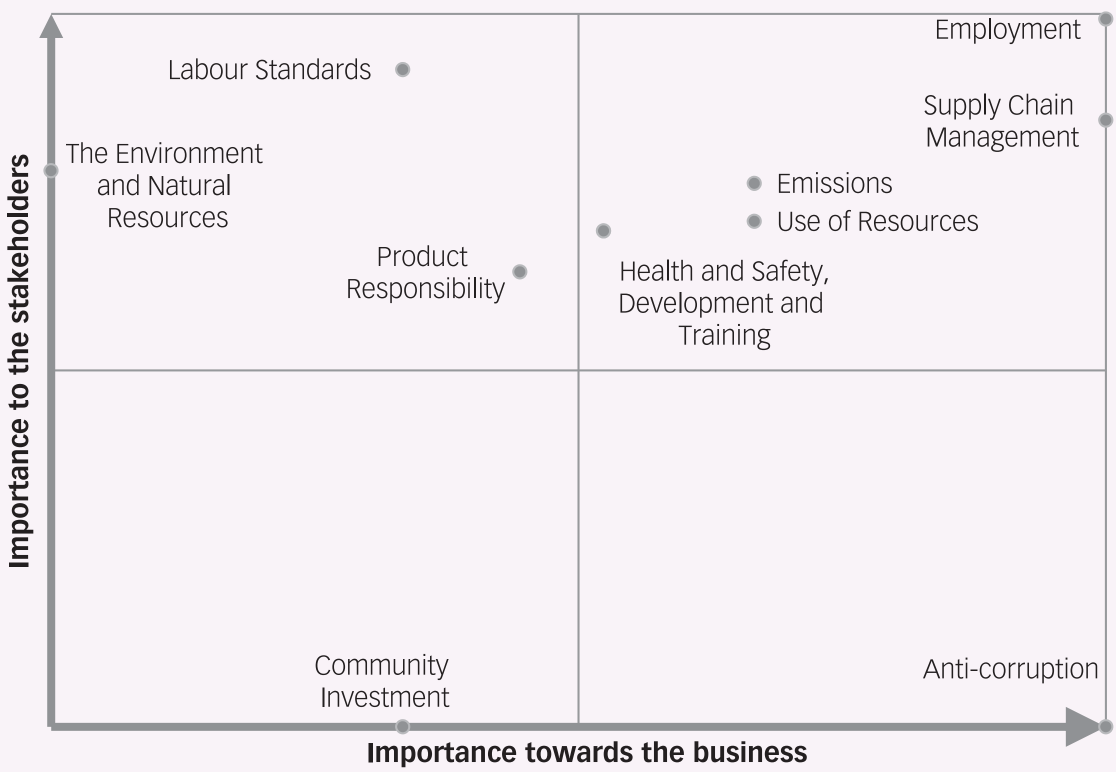
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MATERIALITY ASSESSMENT

The Group emphasises the participation of its stakeholders, including shareholders of the Company, staff, customers, suppliers etc. All of them have a substantial impact on the success of its business or activities.

The Group believes that stakeholder engagement has a significant level of influence in developing sustainable development strategies and fulfilling social responsibilities which is the basis for the Group's strategy formulation and decision-making. A list of sustainability issues, which were potentially material to the Group, was decomposed in the context of its business and daily operation. A materiality assessment matrix was developed from the result of stakeholder engagement exercises conducted with internal stakeholders through an online survey. The materiality assessment and prioritisation took two dimensions into account. It included the importance of issues to stakeholders and the business. The issues that fall within the top right-hand corner have relatively higher significance to both stakeholders and the Group's business.

**Materaility Assessment**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL ASPECTS

The Group is passionate about protecting our planet and conserving its natural resources for future generations. The Group recognises the impact its business can have on the environment and is working hard to reduce its footprint. The Group also embraces sustainability challenges as opportunities to innovate and continuously improve our product design and the way the Group operates and the Group is inspired by the possibilities. The Group strictly abides by the related laws and regulations, including the Environmental Protection Law of the PRC, the Environmental Impact Assessment Law of the PRC, the Rules on the Administration concerning Environmental Protection of Construction Projects, the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, Rule on Classification for Environmental Impact Assessment of Construction Projects and Environmental Protection Tax Law of the PRC.

The Group has established an environmental management system with the "Environmental Management Working Group" to oversee all the environmental related matters. The Group strives to follow its environmental objectives:

- Compliance with national environmental laws and regulations

  Comply with all the national laws, regulations and other applicable requirements related to production activities, products and services.

- Pollution prevention

  Raise the employees' awareness towards environmental protection and strengthen the environmental knowledge and skills of employees; strengthen the management of hazardous wastes; and establish an environmental management system with pollution prevention as the core.

- Promotion of clean production

- Creation of a harmonious environment for sustainable development

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Emissions

*Air Emissions*

In the daily operations, the major air pollutant emission sources are activities in the spray paint booths, the burners used in the production plant and staff canteen. The exhaust gas contains paint ashes and volatile organic chemicals (VOCs) (e.g. Benzene, Toluene and Xylene), which are generated from the process of spray painting, pad printing. Besides, oil vapour is generated during cooking. Also, the burners emit inorganic air pollutants[1] (sulphur oxides and nitrogen oxides) during combustion.

The Group has implemented measures to ensure the emissions complying with the Level II requirement of the Integrated Emission Standard of Air Pollutant (GB16297–1996). To reduce the emissions from various activities, the Group has implemented emission control measures as follows:

| Activity/Source of Emission | Emission Control Measure |
|---|---|
| **Spraying** | • The spray gun for painting is flushed in a designated wash station, which equipped with ventilation units with filter and activated carbon to remove the VOCs. |
| **Dry milling process** | • A dustless dry mill is used to reduce the dust. |
| **Cutting process** | • Regularly perform maintenance to equipment to ensure the operation is running properly, reduce the running heat of machine caused by bad maintenance.<br>• The blade of the cutting machine is inspected regularly to ensure its sharpness. |
| **Mobile vehicles** | • Quarterly maintenance is performed to check if the engine oil is needed to replace and the oil tank is required for cleaning.<br>• Engine oil is replaced according to the distance travelled and the mileage record is maintained. |

The air emissions are as follows:

| Air Emissions | 2019 (tonnes) | 2018 (tonnes) |
|---|---|---|
| Sulphur Oxides ($SO_x$) | 0.65 | 0.74 |
| Nitrogen Oxides ($NO_x$) | 0.17 | 0.20 |
| Benzene | 0.0001 | 0.0001 |
| Toluene | 0.0005 | 0.0235 |
| Xylene | 0.0003 | 0.0137 |
| Total VOCs | 0.0162 | 0.0375 |

For the year ended 30 April 2019, the air emissions reduced, which is possibly caused by the reduction of the production volume. Moving forward, the Group will continue monitoring the air pollutant emissions and implementing mitigation measures.

1 The inorganic air pollutant emission is estimated by making reference to "1st National Survey of Pollution Sources — Industrial Pollutants Emission Factors Handbook". Emission volume from vehicles is not included as it is considered insignificant to the Group's operation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Greenhouse Gas (GHG) Emissions*

The Group is aware of potential physical and financial consequences of climate change on the business. These could include higher energy costs and more frequent extreme weather events that disrupt product supply chains. To minimise the contribution to greenhouse gas (GHG) emissions[2], the Group strives to reduce energy use across the business and the related energy saving measures are illustrated in the section headed "Use of Resources". To reduce fugitive emission from the refrigerant in air conditioner, measures are implemented as follows:

- Regular maintenance of air-conditioner, for instance, e.g. cleaning filter and compressor, check if any leakage of refrigerant
- Prefer purchasing air conditioners with non-fluorinated refrigerant
- New air conditioners are preferred to have the China Energy Label Level 1

For the year ended 30 April 2019, the total GHG emissions decreased by 4.3%. The GHG emissions[2] by scopes are as follows:

| **GHG Emissions** | **2019 (tonnes $CO_2$ equivalent)** | 2018 (tonnes $CO_2$ equivalent) |
|---|---|---|
| Scope 1[3] | **217.13** | 238.93 |
| Scope 2[4] | **6,355.98** | 6,629.23 |
| Total | **6,573.11** | 6,868.16 |
| Intensity (per unit of products) | **0.0026** | 0.0025 |

*Waste*

Reducing waste allows the Group to save money while shrinking its environmental impact. The Group's comprehensive waste policy requires managers at the owned and operated facilities to document waste management practices and procedures and communicate them to all employees. Facilities must evaluate all hazardous and non-hazardous waste streams and maintain an up-to-date recycling plan that identifies materials to be recycled or reused, methods of collection, and recycling vendors. Recycle bins are set up in the production plant for collection of recyclable wastes and hazardous wastes. The hazardous wastes are then treated through incineration.

[2] The calculation of greenhouse gas emissions is made reference to guidelines provided by "The Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standards".

[3] Scope 1 refers to direct emissions from operations that are owned or controlled by the Group. The scope of data is refined to improve accuracy. Hence, the data in 2018 and 2019 may not be compared directly.

[4] Scope 2 refers "Indirect energy" emissions resulting from internal consumption by the Group (purchased or acquired) of electricity, heating, cooling and steam, mainly come from the use of electricity.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

All bins must be protected against leakage to prevent pollution to the environment. Employees are not allowed to dump, stack or discard wastes without authorisation. Qualified wastes treatment company is engaged in transportation, treatment, storage, disposal or recycling of hazardous and regulated waste. Also, more environmental-friendly material is used in the injection moulding to reduce the uses of chloroprene rubber and polybutadiene rubber. The hazardous wastes and non-hazardous wastes produced are as follows:

| Hazardous Wastes | 2019 (tonnes) | 2018 (tonnes) |
|---|---|---|
| Organic Solvent | 0.25 | 0.13 |
| Paint Residue | 0.25 | 0.19 |
| Sludge | 0.31 | 0.14 |
| Cloth and Gloves | 1.00 | 0.58 |
| Activated Carbon | 0.45 | 0.35 |
| Fluorescent Lamp | 0.04 | 0.02 |
| Total | 2.30 | 1.41 |

| Non-hazardous Wastes | 2019 (tonnes) | 2018 (tonnes) |
|---|---|---|
| Domestic Wastes | 58.20 | 68.50 |

*Wastewater*

Wastewater is generated from the process of rinsing metal surface and the water curtain system. All the wastewater is collected and discharged after appropriate treatment. For the year ended 30 April 2019, 1,174 tonnes of wastewater was treated and discharged according to the requirement of the local regulations. The indicators of the wastewater are as follow:

| Wastewater Indicator | 2019 (tonnes) | 2018 (tonnes) |
|---|---|---|
| Chemical Oxygen Demand (COD) | 0.0195 | 0.0236 |
| Ammonia Nitrogen | 0.0084 | 0.0001 |
| Suspended Solid | 0.0181 | 0.0206 |

In order to prevent water pollution to the surrounding environment by the wastewater, daily inspection of rainwater discharge ports is carried out. The ports are cleaned up timely to prevent sewage from entering the rainwater pipelines and vice versa.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Use of Resources

The Group is committed to conserving resources for the purposes of environmental and operating efficiency. To pursue the Group's environmental commitment, it implements multiple measures in enhancing energy efficiency.

The Group has established an energy management system to monitor and manage the use of resources. The Group aims to reduce its operating costs as well as our carbon footprints. To reduce energy consumption, the Group adopts plans and measures as follows:

- Maintenance of the machinery is carried out regularly to ensure their efficiencies. One of three transformers is shut down in the slack season
- Raising the employees' awareness of energy saving
- Improvement of the production process and management
- Reinforcement of the energy management

The Group formulates energy saving plan annually and installed energy monitoring system. For the year ended 30 April 2019, the total energy consumption decreased by 4.6%. Energy consumption by energy type is as follows:

| Energy Type | 2019 (kWh) | 2018 (kWh) |
|---|---|---|
| Petrol[5] | 71,633.49 | 47,569.11 |
| Natural Gas | 997,066.17 | 1,135,487.50 |
| Electricity | 12,058,400.00 | 12,576,800.00 |
| Total | 13,127,099.66 | 13,759,856.61 |
| Intensity (per unit of products) | 5.23 | 5.01 |

While operations at the Group's facilities and offices are not water intensive, water conservation is a focus area and part of its environmental management practices. The Group uses water primarily in restrooms and kitchens, with a small amount for irrigation and processes. Its water reduction efforts are modest since they can only generate minor improvements. Water is supplied by the third party and there is no significant issue in sourcing water for the business operation. The Group requires managers at its owned and operated facilities to manage water use and develop water conservation plans to reduce consumption, where appropriate. For the year ended 30 April 2019, 1,850 tonnes of water was reused before discharged and the total water consumption decreased by 26.8%.

| Water Consumption | 2019 ($m^3$) | 2018 ($m^3$) |
|---|---|---|
| Total | 194,808 | 266,247 |
| Intensity (per unit of products) | 0.08 | 0.10 |

[5] The scope of data is refined to improve accuracy. Hence, the data in 2018 and 2019 may not be compared directly.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Apart from energy and water consumptions, packaging material is one of the resources with significant consumption. For the year ended 30 April 2019, the total packaging material consumption decreased by 16.0%. The consumption of packaging material is as follows:

| Packaging Material | 2019 (tonnes) | 2018 (tonnes) |
|---|---|---|
| Carton Box | 864.78 | 922.29 |
| Coloured Box | 1,819.74 | 2,274.69 |
| Total | 2,684.52 | 3,196.98 |
| Intensity (per unit of products) | 0.0011 | 0.0011 |

### The Environment and Natural Resources

The major environmental and natural resources impacts of the Group's operations include exhaust and wastewater discharge, water resources and energy consumption. The Group pays much attention to the impacts of its operation on the environment and natural resources. The Group has established relevant management rules including the "Environmental Protection Management Regulations" to enhance management and reduce the impacts on the environment and natural resources. The Group has established related procedures to mitigate the risks of pollution to the soil and underground water.

- The storage, transport and transfer of chemicals are strictly controlled. Material Safety Data Sheets (MSDS) for different chemicals are maintained properly.
- A sewage discharge system is properly maintained.
- Emergency response unit is established and emergency drills are carried out regularly.

Besides, initiatives implemented to mitigate the environmental impacts from the emissions and resource consumption are mentioned in the sections headed "Emissions" and "Use of Resources" in this ESG report.

## SOCIAL ASPECTS

The Group is committed to maintaining a high level of corporate social governance as it is important for the Group in constructing a safe and healthy work environment as well as establishing product quality and social credibility. In the meantime, the Group devotes itself to preserve the sustainable development of its business and community. To promote this business model, the Group exhibits prudence in managing its operations and is cautious in executing decisions made by the management team.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## EMPLOYMENT AND LABOUR PRACTICES

### Employment

The Group considers its employees as valuable assets. The Group strives to provide its employees with a decent working environment while providing opportunities for them to develop alongside the Group's growth. The Group adopts employment policies that comply with the related laws and regulations, including but not limited to the Employment Ordinance in Hong Kong, the Labour Law of the PRC, the PRC Employment Contract Law, the Implementing Regulations of the Employment Contract Law of the PRC, the Social Insurance Law of the PRC and the Regulations on the Administration of Housing Provident Fund.

*Compensation, benefits and welfare*

The Group offers competitive salary packages to the employees. The salary complies with local laws and regulations. Besides, the Group makes contributions to social security scheme (pension, insurance for unemployment, medical, maternity and work-related injury as well as housing provident fund), consolation payment and healthcare subsidies for PRC employees. For employees in Hong Kong, the Group participates in the defined contribution scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are made based on a percentage of employees' basic salaries. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme. The Group also provides medical insurance and compensation insurance.

*Equal opportunity in recruitment, promotion and dismissal process*

The Group considers itself as an equal opportunity employer and does not unlawfully discriminate against employees or applicants for employment on the basis of an individual's race, colour, religion, creed, sex, national origin, age, disability, marital status, veteran status or any other status protected by applicable law. Equal Opportunity Employment Policy applies to all terms, conditions and privileges of employment, including recruitment, hiring, placement, compensation, promotion, discipline and termination. The Group is also committed to protecting the right of female employees, they are not allowed to be terminated during her menstrual cycle, pregnancy.

*Working hours and rest period*

The Group's production plant implements five-day work week. Employees enjoy public holidays, annual leaves, marriage and compassionate leaves. Overtime working hours are controlled within a reasonable limit. Normally, the overtime hours will not exceed 2 hours per day. Total overtime hours do not exceed 70 hours per month.

*Diversity and anti-discrimination*

With a view to achieving sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Group has established a Board Diversity Policy to set out the approach to achieve diversity on the board of directors of the Company. Selection of candidates will be based on a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

As mentioned in our Anti-Harassment Policy, the Group prohibits discrimination or harassment based on race, colour, religion, creed, sex, national origin, age, disability, marital status, veteran status or any other status protected by applicable law. The Group has a grievance procedure in place to handle complaints relating to sexual harassment or discrimination.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group respects and protects the freedom of associations and the right of collective bargaining to ensure the operations of the Group complies with the local laws and regulations and the social responsibility standards. The Group assists the employees in electing of their own representatives and encourages them to communicate with the management about issues related to the rights and interests.

## Health and Safety

The Group takes every reasonable precaution to ensure that employees have a safe working environment. Safety measures and rules are in place for the protection of all employees. The Group has formulated the "Health and Safety Management Procedure" to guarantee the health and safety of employees. The Group strictly abides by the local laws and regulations, for instance, Law of the PRC on Prevention and Control of Occupational Diseases and Production Safety Law of the PRC. The Group is committed to taking effective measures to prevent workers from injuries or illness in the workplace as follows:

- conducting on-going training and circulating operation manuals of production process to enhance employee's awareness of safety and health issues at work
- maintaining a bright, spacious, clean working environment and providing adequate and sanitary drinking water
- providing effective personal protective equipment
- conducting fire drills to verify the feasibility of emergency plans
- periodically inspecting the safety conditions of the production units
- implementing a management system for managing overtime work and holiday arrangement to ensure that the employees have proper rest and are properly compensated for overtime work, if any

In order to prevent and mitigate safety and health issues, the Group has set up communication platform, including email and hotline for employees where they can complain or express their concerns over various aspects such as work arrangement, overtime compensation etc. on an anonymous basis.

## Development and Training

The Group encourages employees to replenish their knowledge and acquire new skills to excel at their jobs. It helps to boost the confidence of employees in improving efficiency and productivity. The Group has formulated "Employee Training and Development Policy" to encourage employees to participate in various training, including individual training sessions, employee coaching and mentoring, conference and on-the-job training.

For the year ended 30 April 2019, our employees attended training and seminars covering different topics, including but not limited to update of customs clearance system, quality assurance and management, update of taxation in the PRC, VOCs emission control, clear production and energy saving.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Labour Standards

The Group establishes comprehensive recruitment procedures to prevent the employment of candidates under the age of 16. Human resources department is responsible for the reviewing of the applicants' personal information in accordance with relevant laws and regulations and labour management procedures to ensure the age of the employees are in line with the regulatory requirement. A face-to-face meeting with new employees is arranged before their job commencement to ensure no forced labour. For employees aged 16 to 17, they are not allowed to work overtime or perform duties with potential hazards. The Group strictly abides by the Labour Law of the PRC, Provisions on the Prohibition of Child Labour, Law of the PRC on the Protection of Minors and other related labour laws and regulations to prohibit any child and forced labour employment. For the year ended 30 April 2019, the Group was not aware of any case of employment of forced labour or child labour.

The Group also protects the freedom of employees and ensures the business activities comply with the national laws and regulations and the requirements of Business Social Compliance Initiative (BSCI) and The International Council of Toy Industries (ICTI). The Group does not engage in any form of enslavement, coercion, debt repayment, trafficking or involuntary labour. The Group ensures that employees are not subjected to inhuman or degrading treatment, corporal punishment, mental or physical stress. All disciplinary actions must be in written format and explained clearly to the affected employees.

## OPERATING PRACTICES

### Supply Chain Management

The Group has established "Supply Chain Management Policy" to demonstrate the commitment to corporate responsibility to the supply base. The Group established a framework to consider issues that are important to the business to minimise adverse impact to the environment, to a healthy and safe workplace, to the maintenance of fair and reasonable labour practices and to the content of materials supplied to the Group. The Group expects its suppliers to conduct their operations in a socially and environmentally responsible manner. Initial supplier assessment and annual evaluation process are carried out to assess the performance of the suppliers in various aspects, including the legal and regulatory compliance, environmental, health and safety, labour and human resource, employment practices, child labour and forced labour, freedom of association and information access.

### Product Responsibility

*Product Health and Safety*

The Group believes that the commitment to the high quality and safety of the products is key to the Group's success and crucial to future prospects. The Group has established "Product Quality and Safety Policy" and places a strong emphasis on product quality and safety by implementing a range of quality control measures. In recognition of the quality in manufacturing processes, the production plant has obtained ISO 9001:2015 certification. Customers would also carry out a factory audit in the production plant.

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

Quality Assurance

The Group's quality control staff, who are responsible for implementing our quality control procedures by inspecting the quality of raw materials, observing and checking our production process, performing tests on work-in-progress and finished products.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Quality control in the production process

During production, to ensure that the products comply with the specifications and are free from defects, inspections are carried out at each stage of the production process. Quality control staff is stationed at each stage of the production process to screen out products which are defective and to ensure that the quality of the products satisfies the licensors' or customers' designs and specifications as well as the Group's stringent quality standards.

Quality control of the finished goods

Once a product has been fully assembled, it is subject to testing and checking in accordance with specified requirements. To maintain the high quality of products, full checking on all of the finished products is performed.

Unsatisfactory products will be reworked until they reached the requisite standards. In addition, products are tested by the Group's internal laboratory and third-party laboratories.

*Product Return Policy, After-sales Services and Complaint Handling*

The Group provides three types of defective allowance to the customers: (i) a pre-set defective percentage based on the value of sales, such allowance would be deducted from the gross sales amount; (ii) defective allowance for the customers on actual basis after end customers return goods to stores; and (iii) return of a whole shipment of goods to the Group due to manufacturing defect.

Generally, request for a return of a large batch of defective products will only be handled upon written request to the Company within one month of the arrival of goods at the port of destination. Various factors will be considered and upon internal investigation, the customers will be informed whether the goods can be returned. Depending on the negotiation with the customers, the Group would bear all freight costs and any additional domestic logistics charges that are involved in the return of goods. In general, no product return or exchange by customers is allowed except for malfunctions of or manufacturing defects in the products, and in such case, product return or provision of spare parts will be arranged on a case-by-case basis.

To enhance customers' satisfaction with the products, the Group has service hotlines for handling inquiries or complaints from end customers in the U.S. and Canada. Most of the inquiries concern missing part and minor issues, which can be properly handled by the sales team in Hong Kong and the sales representatives. The Group would consider arranging goods return or providing spare parts for repair on a case-by-case basis.

*Customer Privacy and Data Protection*

The Group has established "Consumer Data Policy" to demonstrate its commitment to treat the information of customers (wholesalers, retailers, distributors) and end users (ultimate customers) with the utmost care and confidentiality. With this policy, the Group ensures that it gathers, stores and handles data fairly, transparently and with respect towards individual rights.

*Product Labelling*

For products sold in European Economic Area, a CE marking is affixed with a European Commission Declaration of Conformity prepared under E.U. Regulations. In addition, a warning for toys which might be dangerous is affixed to a product intended for a child under 36 months of age.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Marketing and Advertisement*

The Group maintains a high sense of social responsibility in advertising and marketing to children around the world. The Group has established "Marketing to Children Policy" for maintaining ethical standards in marketing and advertising to children across all channels of communication as part of an advertising and marketing self-regulation program and also to adhere to local government regulations and requirements.

The Group strictly abides by the laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. The details are as follows:

| Location | Law and regulation |
|---|---|
| **Hong Kong** | • The Toys and Children's Products Safety Ordinance<br>• The Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulation<br>• The Sale of Goods Ordinance<br>• The Personal Data (Privacy) Ordinance |
| **The PRC** | • The Patent Law of the PRC<br>• The Product Quality Law of the PRC<br>• The Trademark Law of the PRC |
| **The E.U.** | • The Toy Safety Directive 2009/48/EC<br>• The Product Liability Directive 85/374/EEC<br>• The Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation 2006<br>• The Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2012<br>• The Waste Electrical and Electronic Equipment Regulations 2013<br>• The General Data Protection Regulation |
| **The United Kingdom** | • The General Product Safety Regulations 2005<br>• The Toys (Safety) Regulations 2011<br>• Consumer Protection Act 1987 |
| **The U.S.** | • The Consumer Product Safety Act<br>• The Consumer Product Safety Improvement Act of 2008<br>• The Child Safety Protection Act<br>• The Federal Hazardous Substances Act<br>• The Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code section 25249.5 et seq., commonly known as "Proposition 65") in California |

## Anti-corruption

The Group is committed to maintaining the highest ethical standards and vigorously enforces the integrity of its business practices. We take a zero-tolerance approach to bribery and formulate "Anti-Bribery and Anti-Corruption Policy". The Group strictly abides by the local laws and regulations, including but not limited to Criminal Law of the PRC, Prevention of Bribery Ordinance in Hong Kong. The Group did not commit to any bribery and corruption incidents for the year ended 30 April 2019.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Under the policy, the Group and its employees are:

- Prohibited from the offering, promising or paying a bribe of any kind;
- Prohibited from soliciting, accepting or receiving a bribe of any kind;
- Prohibited from giving or offering anything of value to a public official;
- Required to comply with the Group's guidelines and authorisation levels in relation to the giving and receipt of gifts and hospitality;
- Prohibited from making facilitation payments; and
- Required to complete due diligence into all agents, representatives, suppliers, contractors, joint venture partners and all those with whom a business relationship is established in order to enable the Group to offer its services to its clients.

Regular training will also be made available to all business units in relation to anti-bribery and anti-corruption measures, and the details of the Group's procedures will be disseminated throughout the Group on a regular basis.

### Community Investment

The Group believes that community contribution is important for sustainable development as it helps to establish a harmoniums society. Although there is no formal policy regarding in this aspect, the Group strives to make contributions to various non-governmental organisations and encourage its employees to participate in volunteering services organised by local charities.

## REGULATORY COMPLIANCE

For the year ended 30 April 2019, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group in the environmental and social areas.

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**To the Shareholders of Kiddieland International Limited**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Kiddieland International Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 49 to 105, which comprise:

- the consolidated statement of financial position as at 30 April 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 April 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter identified in our audit is summarised as follows:

- Impairment of inventories

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment of inventories**<br><br>*Refer to notes 4(b) and 19 to the consolidated financial statements*<br><br>As at 30 April 2019, the Group had inventories amounted HK$118,079,000, net of provision for impairment of inventories of approximately HK$1,190,000.<br><br>The Group is engaged in manufacturing and trading of plastic toy products targeted the toddlers' age group. The Group plans the production based on the actual and anticipated demand, market condition and production efficiency but the unpredictable market volatilities could have severe impacts on the manufacturing costs and marketability of the Group's products.<br><br>Inventories are stated at the lower of cost and net realisable value. Management reviews the carrying values of inventories and determines the amount of impairment provision with reference to the inventory utilisation records, inventories ageing, confirmed sales orders and selling prices for sales subsequent to the year end.<br><br>We focused on this area due to management's judgement in estimating the amount of inventory provision. | Our procedures in relation to management's assessment on the impairment of inventories includes:<br><br>• Understanding and evaluating the appropriateness of the basis that management used in estimating the level of impairment provision for inventories by considering the inventory ageing as at 30 April 2019; the subsequent sales situation after year end; and the confirmed orders on hand;<br><br>• Testing the accuracy of inventory ageing on a sample basis by checking to the inventories receipt records;<br><br>• Testing the inventory utilisation during the year ended 30 April 2019 and subsequent to the year end on a sample basis by checking to sales invoices and shipping documents and performing analysis to identify products with indication of slow moving and obsolescence;<br><br>• Testing the confirmed sales orders by checking to the purchase orders placed by the Group's customers on a sample basis; and<br><br>• Comparing the carrying amounts of the inventories, on a sample basis, to their net realisable values by examining sales invoices and shipping documents for inventories sold subsequent to the year end to check the inventories were stated at lower of cost and net realisable value.<br><br>Based on the procedures described, we considered management's judgement and estimates in relation to the provision of impairment for inventories to be supportable by the available evidence. |

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Corporate Governance Report and Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

# INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Hiu Tung.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 10 July 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 30 April 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Revenue | 5 | 289,049 | 320,396 |
| Cost of sales | 9 | (250,191) | (272,873) |
| **Gross profit** | | 38,858 | 47,523 |
| Other income | 7 | 731 | 1,100 |
| Other gains, net | 8 | 2,102 | 1,987 |
| Selling and distribution expenses | 9 | (11,593) | (16,787) |
| Administrative expenses | 9 | (34,438) | (38,852) |
| Reversal of impairment losses/(impairment losses) on financial assets, net | 3.1(b) | 731 | (6,656) |
| **Operating loss** | | (3,609) | (11,685) |
| Finance income | | 8 | 8 |
| Finance expenses | | (5,231) | (4,631) |
| Finance costs, net | 10 | (5,223) | (4,623) |
| **Loss before taxation** | | (8,832) | (16,308) |
| Income tax (expenses)/credits | 11 | (529) | 2,584 |
| **Loss for the year** | | (9,361) | (13,724) |
| **Other comprehensive (loss)/income for the year** | | | |
| *Item that may be reclassified to profit or loss:* | | | |
| Currency translation differences | 23 | (4,825) | 5,726 |
| Other comprehensive (loss)/income for the year, net of tax | | (4,825) | 5,726 |
| **Total comprehensive loss for the year** | | (14,186) | (7,998) |
| **Basic and diluted loss per share (HK cents)** | 15 | (0.9) | (1.5) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 April | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Note | **HK$'000** | HK$'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Prepaid operating lease | 16 | **12,330** | 13,204 |
| Property, plant and equipment | 17 | **119,333** | 107,452 |
| Intangible assets | 18 | **11,853** | 29,343 |
| Deferred income tax assets | 24 | **8,069** | 7,136 |
| Prepayment | 20 | **72** | 1,064 |
| | | **151,657** | 158,199 |
| **Current assets** | | | |
| Inventories | 19 | **118,079** | 113,533 |
| Trade and bills receivables | 20 | **25,348** | 19,276 |
| Other receivables, deposits and prepayments | 20 | **5,433** | 2,968 |
| Income tax recoverable | | **1,137** | 3,750 |
| Cash and bank balances | 21 | **19,392** | 43,240 |
| | | **169,389** | 182,767 |
| **Total assets** | | **321,046** | 340,966 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 30 April<br>2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | 22 | **100,000** | 100,000 |
| Other reserves | 23 | **6,242** | 4,922 |
| Exchange reserves | 23 | **(2,409)** | 2,416 |
| Retained earnings | 23 | **24,111** | 33,472 |
| **Total equity** | | **127,944** | 140,810 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 25 | **–** | 5,000 |
| Deferred income tax liabilities | 24 | **4,337** | 4,159 |
| Other payables | 27 | **58** | 9,593 |
| | | **4,395** | 18,752 |
| **Current liabilities** | | | |
| Bank borrowings | 25 | **138,233** | 118,160 |
| Trade and bills payables | 26 | **21,240** | 20,078 |
| Accruals and other payables | 27 | **27,485** | 42,137 |
| Contract liabilities | | **1,371** | – |
| Income tax payable | | **378** | 1,029 |
| | | **188,707** | 181,404 |
| **Total liabilities** | | **193,102** | 200,156 |
| **Total equity and liabilities** | | **321,046** | 340,966 |

These consolidated financial statements on pages 49 to 105 were approved for issue by the Board on 10 July 2019 and were signed on its behalf.

**Mr. Lo Hung**
*Director*

**Mr. Lo Shiu Kee Kenneth**
*Director*

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital (note 22) HK$'000 | Other reserves (note 23) HK$'000 | Exchange reserves (note 23) HK$'000 | Retained earnings (note 23) HK$'000 | Total HK$'000 |
| At 1 May 2017 | 1 | 45 | (3,310) | 147,196 | 143,932 |
| Loss for the year | – | – | – | (13,724) | (13,724) |
| Other comprehensive income: | | | | | |
| — Currency translation differences | – | – | 5,726 | – | 5,726 |
| | – | – | 5,726 | – | 5,726 |
| Total comprehensive loss | – | – | 5,726 | (13,724) | (7,998) |
| Transactions with owners: | | | | | |
| Issuance of ordinary shares upon capitalisation issue | 74,999 | (74,999) | – | – | – |
| Issuance of ordinary shares upon initial public offering | 25,000 | 95,000 | – | – | 120,000 |
| Dividends paid (note 14) | – | – | – | (100,000) | (100,000) |
| Share issuance costs | – | (15,124) | – | – | (15,124) |
| | 99,999 | 4,877 | – | (100,000) | 4,876 |
| At 30 April 2018 | 100,000 | 4,922 | 2,416 | 33,472 | 140,810 |
| At 1 May 2018 | **100,000** | **4,922** | **2,416** | **33,472** | **140,810** |
| Loss for the year | **–** | **–** | **–** | **(9,361)** | **(9,361)** |
| Other comprehensive loss: | | | | | |
| — Currency translation differences | **–** | **–** | **(4,825)** | **–** | **(4,825)** |
| | **–** | **–** | **(4,825)** | **–** | **(4,825)** |
| Total comprehensive loss | **–** | **–** | **(4,825)** | **(9,361)** | **(14,186)** |
| Transactions with owners: | | | | | |
| Employees' share option scheme (note 28) | **–** | **1,320** | **–** | **–** | **1,320** |
| | **–** | **1,320** | **–** | **–** | **1,320** |
| At 30 April 2019 | **100,000** | **6,242** | **(2,409)** | **24,111** | **127,944** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 30 April 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 29 | 17,288 | 46,112 |
| Interest received | | 8 | 8 |
| Interest paid | | (5,308) | (5,075) |
| Income tax refunded/(paid) | | 677 | (9,688) |
| **Net cash generated from operating activities** | | 12,665 | 31,357 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (31,720) | (23,494) |
| Proceeds from disposal of property, plant and equipment | | 60 | – |
| Settlements of liabilities arising from acquisitions of licenses | | (19,889) | (20,598) |
| Repayment from related companies | | – | 116 |
| Advances to related companies | | – | (8,399) |
| **Net cash used in investing activities** | | (51,549) | (52,375) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | 363,739 | 248,983 |
| Repayment of bank borrowings | | (329,431) | (330,813) |
| Dividends paid | | – | (1,407) |
| Proceeds from issuance of shares | | – | 120,000 |
| Advance from controlling shareholders | | – | 169 |
| Listing costs paid (equity portion) | | – | (11,694) |
| **Net cash generated from financing activities** | | 34,308 | 25,238 |
| **Net (decrease)/increase in cash and cash equivalents** | | (4,576) | 4,220 |
| Effect on exchange rate differences | | (37) | 162 |
| **Cash and cash equivalents and bank overdrafts at beginning of the year** | | 5,585 | 1,203 |
| **Cash and cash equivalents and bank overdrafts at end of the year** | 21 | 972 | 5,585 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION AND BASIS OF PRESENTATION

Kiddieland International Limited was incorporated in the Cayman Islands on 3 June 2016 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plastic toy products (the "**Toys Business**").

The consolidated financial statements are presented in Hong Kong Dollars ("**HK$**") unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

*(a) New and amended standards, improvements and interpretations adopted by the Group*

The Group has applied the following new and amended standards, improvements and interpretations for the first time for their annual period commencing on 1 May 2018:

| | |
|---|---|
| Annual Improvements Project — HKFRS 1 and HKAS 28 (Amendments) | Annual Improvements 2014–2016 Cycle |
| HKAS 40 (Amendments) | Transfers of Investment Property |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 4 (Amendments) | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HKFRS 15 (Amendments) | Clarifications to HKFRS 15 |
| HK(IFRIC) — Int 22 | Foreign Currency Transactions and Advance Consideration |

The Group had to change its accounting policies following the adoption of HKFRS 9 and HKFRS 15, details of which are set out in note 2.2. Most of the other amendments listed above did not have any material impact on the amounts recognised in prior periods and not expected to significantly affect the current or future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

*(b) New and amended standards, improvements, interpretations and revised framework to existing standards not yet adopted*

The following new and amended standards, improvements, interpretations and revised framework to existing standards are not effective for annual periods commencing on or after 1 May 2018 and have not been early adopted by the Group:

| | |
|---|---|
| Annual Improvements Project — HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 (Amendments) | Annual Improvements 2015–2017 Cycle[1] |
| Conceptual Framework for Financial Reporting 2018 (Amendments) | Revised Conceptual Framework for Financial Reporting[2] |
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material[2] |
| HKAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement[1] |
| HKAS 28 (Amendments) | Long-term Interests in Associates and Joint Ventures[1] |
| HKFRS 3 (Amendments) | Definition of a Business[2] |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation[1] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) — Int 23 | Uncertainty over Income Tax Treatments[1] |

Notes:

(1) Effective for annual periods commencing on or after 1 January 2019.
(2) Effective for annual periods commencing on or after 1 January 2020.
(3) Effective for annual periods commencing on or after 1 January 2021.
(4) To be determined.

The Group has already commenced an assessment of the impact of these amendments. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective except for HKFRS 16.

(i) HKFRS 16 "Leases"

<u>Nature of change</u>

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

*(b) New and amended standards, improvements, interpretations and revised framework to existing standards not yet adopted (Continued)*

(i) HKFRS 16 "Leases" (Continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 30 April 2019, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately HK$6,755,000 among which less than one year is HK$6,275,000 and more than one year is HK$480,000. HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of assets (for the rights of use) and financial liabilities (for the payment obligations). Short-term leases of less than twelve months and leases of low-value assets are exempted from such reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. Operating expenses under otherwise identical circumstances will decrease, and amortisation of right-of-use assets and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Group expects to recognise the right-of-use assets and lease liabilities for the non-cancellable operating lease commitments which are more than one year. The Group expects no material impact to the consolidated statement of comprehensive income.

Date of adoption by the Group

Mandatory for annual periods commencing on or after 1 May 2019.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on any foreseeable future transactions.

### 2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 May 2018, where they are different to those applied in prior periods.

*(a) HKFRS 9 "Financial Instruments" — Impact of adoption*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1 May 2018 only resulted in changes in accounting policies. No material adjustments were made to the amounts recognised in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (Continued)

*(a) HKFRS 9 "Financial Instruments" — Impact of adoption (Continued)*

The changes on the classification and measurement models introduced by HKFRS 9 do not have material impact on the Group's existing financial assets and liabilities, as they are mainly comprised of loans and receivables and financial liabilities at amortised cost as determined under HKAS 39, which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to continuously be initial recognised at fair value and subsequently measured at amortised cost. The Group's trade receivables are subject to HKFRS 9's new expected credit loss model. The Group was required to revise its impairment methodology under HKFRS 9. The Directors of the Company consider that there is no material impact of the change in impairment methodology on the Group's retained earnings and equity.

However, adjustments were made to line items in the consolidated statement of comprehensive income for the comparative financial information related to reclassification of impairment losses on financial assets required as a result of consequential changes made to HKAS 1 "Presentation of Financial Statements".

| | Year ended 30 April 2018 HK$'000 |
|---|---|
| Increase in impairment losses on financial assets, net | 6,656 |
| Decrease in administrative and operating expenses | (6,656) |

*(b) HKFRS 15 "Revenue from Contracts with Customers" — Impact of adoption*

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 May 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in the retained earnings as of 1 May 2018 and that comparatives will not be restated.

(i) Timing of revenue recognition

Revenue is recognised when the customer obtains control of the promised goods or services in the contract at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. All directly attributable transportation expenses are classified as "cost of sales" in the consolidated statement of comprehensive income for 2019. To ensure consistent presentation, similar reclassification of corresponding transportation expenses has been made to cost of sales for 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (Continued)

*(b) HKFRS 15 "Revenue from Contracts with Customers" — Impact of adoption (Continued)*

(ii) Presentation of contract assets and contract liabilities

The following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 May 2018):

| | HKAS 18 carrying amounts 30 April 2018 HK$'000 | Reclassification HK$'000 | HKFRS 15 carrying amounts 1 May 2018 HK$'000 |
|---|---|---|---|
| Accruals and other payables (Current liabilities) | 42,137 | (1,314) | 40,823 |
| Contract liabilities | – | 1,314 | 1,314 |

Advance receipts previously recorded in accruals and other payables are now presented as "contract liabilities" under HKFRS 15.

The following describes the Group's updated revenue from contracts with customers' policy to reflect the adoption of HKFRS 15:

Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

### 2.3 Principles of consolidation and equity accounting

*Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.4).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Principles of consolidation and equity accounting (Continued)

*Subsidiaries (Continued)*

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

### 2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of comprehensive income as a bargain purchase.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Business combinations (Continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of comprehensive income.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in consolidated statement of comprehensive income.

### 2.5 Separate financial statements

Investment in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive Directors that make strategic decisions.

### 2.7 Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollars ("**US$**"). The consolidated financial statements are presented in HK$ because the Directors considered that the headquarter of the Group is located in Hong Kong.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statements of comprehensive income within "Other gains, net".

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within "Finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within "Other gains, net".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Foreign currency translation (Continued)

*(iii) Group companies*

The results and financial position of all Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial positions presented are translated at the closing rate at the end of reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to consolidated statement of comprehensive income, as part of the gain or loss on sale.

### 2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the year in which they are incurred.

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

| | |
|---|---|
| Factories and buildings | 2% or over the remaining period of the lease |
| Leasehold improvements | 10% |
| Plant and machinery | 10% |
| Furniture and fixtures | 20% |
| Office equipment | 33% |
| Motor vehicles | 33% |
| Moulds and tools | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains, net' in the consolidated statements of comprehensive income.

### 2.9 Prepaid operating leases

Prepaid operating leases are stated at cost less accumulated amortisation. Cost represents consideration paid for the use of land on which various factories and buildings are situated for a period of 50 years. Amortisation of prepaid operating lease is calculated on a straight-line basis over the period of leases.

### 2.10 Intangible assets

Separately acquired licences are stated at the cost of minimum guaranteed license payments. The licences have finite useful lives and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of licences over the licence terms of 6 months to 3 years.

### 2.11 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.12 Financial assets

*(a) Classification*

From 1 May 2018, the Group classifies its financial assets at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

*(b) Recognition and derecognition*

Regular way purchases and sale of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*(c) Measurement*

At initial recognition, the Group measures a financial asset at its fair value and subsequently measurement at amortised cost using the effective interest method, less provision for impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial assets (Continued)

*(c) Measurement (Continued)*

Financial assets at amortised cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in comprehensive income and presented in other gains, net. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

*(d) Impairment*

From 1 May 2018, the Group assessed credit risk on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other financial assets at amortised cost, the Company has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus no loss allowance provision was recognised at 30 April 2019.

*(e) HKFRS 9 "Financial Instruments" — Accounting policies applied until 30 April 2018*

Classification

The Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "other receivables and deposits" and "cash and bank balances" in the consolidated statement of financial position (notes 2.15 and 2.16).

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial assets (Continued)

(e) *HKFRS 9 "Financial Instruments" — Accounting policies applied until 30 April 2018 (Continued)*

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

### 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See note 2.12 for further information about the Group's accounting for trade receivables and a description of the Group's impairment policies.

### 2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

### 2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

### 2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

*Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Current and deferred income tax (Continued)

Current and deferred tax is recognised in consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 2.22 Employee benefits

*Pension obligations*

The Group participates in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions, on a mandatory, contractual or voluntary basis, into a separate entity. The scheme is generally funded through payments to insurance companies or state/trustee-administered funds. The Group has no further payment obligations once the contributions have been paid. It has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

The contributions are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*Employee leave enticements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### 2.23 Share-based payment

Share-based compensation benefits are provided to certain selected employees according to the share option plan, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the Group. The fair value of the employee services received in exchange for the grant of the shares and options is recognised as an expense. The total amount to be expensed is determined with reference to the fair value of the shares granted:

— including any market performance conditions (for example, the entity's share price);

— excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

— including the impact of any non-vesting conditions (for example, the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in consolidated statement of comprehensive income, with a corresponding adjustment to equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.23 Share-based payment (Continued)

When the options are exercised, the Company issues new shares to employee. The proceeds received net of any directly attributable transaction costs are credited directly to share capital and share premium.

### 2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.25 Revenue recognition

Revenue from the sale of goods directly to the customers is recognised at the point that the control of the goods have passed to the customers, which is primarily upon the acceptance of the products by the customers. Revenue from sale of goods is recognised, net of value-added tax, allowances for estimated returns, sales incentives, rebates, and discounts. The customers have full discretions over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods.

The goods are always sold with retrospective sales incentives and discounts. Revenue from these sales are recognised based on the price specified in the contract, net of the estimated sales incentives and discounts. Accumulated experience is used to estimate and provide for the discount, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (contra to the trade receivables) is recognised for expected discounts entitled to customers in relation to sales made until the end of each reporting period.

*Contract assets and contract liabilities*

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.26 Other income

(a) *Management fee income*

Management fee income is recognised over the period when the service rendered.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) *Sundry Income*

Sundry income is recognised at the point of time that the Group's obligation is fulfilled and the right to receive payment is established.

### 2.27 Earnings per share

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 32(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.29 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the year in which the dividends are approved by the entities' shareholders or Directors, where appropriate.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest-rate risk and cash flow interest-rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

*(a) Market Risk*

(i) Foreign exchange risk

The Group mainly operates in Hong Kong, the PRC and the U.S. with majority of the transactions settled in HK$, Renminbi ("**RMB**") and US$. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the respective entities' functional currencies. Since HK$ is pegged with US$, management is of the opinion that the foreign exchange risk arising from US$ is insignificant.

As at 30 April 2019, certain of the Group's trade and other receivables, cash and bank balances and trade and other payables are denominated in RMB other than the functional currency of the operating unit. If HK$ has strengthened/weakened by 5% against RMB, with all other variables held constant, the loss before income tax for the year would have been approximately HK$43,000 (2018: HK$64,000) lower/higher.

(i) Cash flow interest-rate risk

The Group has no significant interest-bearing assets except for bank balances, details of which are disclosed in note 21. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which are disclosed in note 25. The bank borrowings that are carried at floating rates expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

As at 30 April 2019, if the interest rates on bank borrowings had been 50 basis points higher/lower, with all other variables held constant, the loss before income tax for the year would have been approximately HK$691,000 (2018: HK$616,000) higher/lower, mainly as a result of higher/lower interest expense on floating-rate borrowings.

*(b) Credit risk*

The Group is exposed to credit risk in relation to its cash and bank balances, trade and bills receivables, other receivables and deposits. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

The Group's financial assets are subject to the expected credit loss model. While cash at banks are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial as they are mainly deposited in reputable and creditworthy banks.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The Group has performed historical analysis and evaluated financial condition of the debtors impacting credit risk and expected credit loss. It considers available and supportive forward-looking information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

*(b) Credit risk (Continued)*

Trade receivables (Continued)

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

| Category | Group definition of category | Basis for recognition of expected credit loss provision |
|---|---|---|
| Group 1 | Entities rated as top-grade by reputable credit rating agencies | Lifetime expected credit losses |
| Group 2 | Entities rated as medium-grade by reputable credit rating agencies | Lifetime expected credit losses |
| Group 3 | Entities rated as speculative grade by reputable credit rating agencies | Lifetime expected credit losses |
| Group 4 | Individuals and other entities which had no credit ratings information publicly available | Lifetime expected credit losses |
| Group 5 | Entities that have declared bankruptcy | Lifetime expected credit losses |

On that basis, the loss allowance at each reporting period (on adoption of HKFRS 9) was determined as follows for trade receivables:

| As at 30 April 2019 | Group 1 | Group 2 | Group 3 | Group 4 | Group 5 | Total |
|---|---|---|---|---|---|---|
| Expected loss rate | 0.05% | 0.1% | 0.3% | 1%–50% | 100% | |
| Gross carrying amount — trade receivables (HK$'000) | 7,717 | 1,314 | 267 | 16,427 | 5,548 | 31,273 |
| Loss allowance (HK$'000) | 4 | 1 | 1 | 371 | 5,548 | 5,925 |

The closing loss allowance for trade receivables as at 30 April 2019 reconciles to the opening loss allowance as follows:

| | HK$'000 |
|---|---|
| As at 30 April 2018 — calculated under HKAS 39 | 6,656 |
| Amounts restated through opening accumulated losses* | – |
| Opening loss allowance as at 1 May 2018 — calculated under HKFRS 9 | 6,656 |
| Reversal of impairment losses on financial assets, net | (731) |
| As at 30 April 2019 | 5,925 |

* The restatement on transition to HKFRS 9 as a result of applying the expected credit loss model was immaterial.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

*(b) Credit risk (Continued)*

Trade receivables (Continued)

In prior years, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments (more than 150 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other receivables

As at 30 April 2019, the Group has considered the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis for the year. To assess whether there is a significant increase in credit risk, the Group considered the actual or expected significant adverse changes in business, financial and economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations. The Group determined the expected loss rate for other receivables was immaterial and no loss allowance for other receivables was recognised.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of property, plant and equipment, and payment for purchases, operating expenses and dividend. The Group mainly finances its working capital requirements through internal resources and bank borrowings.

The Group monitors and maintains a level of cash and cash equivalents considered adequate by the Directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Directors monitor the utilisation of bank and other borrowings to ensure adequate unutilised banking facilities and compliance with loan covenants.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

*(c) Liquidity risk (Continued)*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interests payments computed using contractual rates, or if floating, based on the current rates at the year-end dates). Where the loan agreement contains a repayable on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment and no interest payments were included. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | On demand<br>HK$'000 | Within 1 year<br>HK$'000 | Between 1 and 2 years<br>HK$'000 | Between 2 and 5 years<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| **As at 30 April 2018** | | | | | |
| Trade and bills payables | – | 20,078 | – | – | 20,078 |
| Accruals and other payables | – | 16,927 | – | – | 16,927 |
| Licenses liabilities | – | 16,555 | 9,593 | – | 26,148 |
| Bank borrowings | 110,160 | 8,458 | 5,176 | – | 123,794 |
| | 110,160 | 62,018 | 14,769 | – | 186,947 |
| **As at 30 April 2019** | | | | | |
| Trade and bills payables | **–** | **21,240** | **–** | **–** | **21,240** |
| Accruals and other payables | **–** | **13,174** | **–** | **–** | **13,174** |
| Licenses liabilities | **–** | **8,001** | **58** | **–** | **8,059** |
| Bank borrowings | **138,233** | **–** | **–** | **–** | **138,233** |
| | **138,233** | **42,415** | **58** | **–** | **180,706** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

*(c) Liquidity risk (Continued)*

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in the above table.

| | Maturity analysis — Bank borrowings subject to a repayment on demand clause based on scheduled repayments | | | |
|---|---|---|---|---|
| | Within 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Total HK$'000 |
| As at 30 April 2018 | 103,123 | 8,813 | 4,912 | 116,848 |
| As at 30 April 2019 | **136,689** | **3,802** | **–** | **140,491** |

As at 30 April 2019, the Group had total banking facilities of approximately HK$283,350,000 granted by banks which are subject to annual review for renewal. Subsequent to the year-end date, the Group has successfully renewed banking facilities of approximately HK$185,100,000 which included replacing a revolving loan of HK$30,000,000 with a 5-year committed term loan. The new term loan is repayable over 5 years by monthly equal instalments.

The Directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment having considered the values of the assets pledged to the banks. The Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position, plus net debt of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Capital risk management (Continued)

The gearing ratios at each reporting period were as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank borrowings | **138,233** | 123,160 |
| Less: cash and bank balances | **(19,392)** | (43,240) |
| Net debts | **118,841** | 79,920 |
| Equity | **127,944** | 140,810 |
| Total capital | **246,785** | 220,730 |
| Gearing ratio | **48.2%** | 36.2% |

The increase in the gearing ratio as at 30 April 2019 is due to the increase of bank borrowings during the year.

### 3.3 Fair value estimation

The carrying amounts of the Group's current financial assets, including trade and bills receivables, deposits and other receivables, and cash and bank balances excluding prepayments, and the Group's current financial liabilities, including trade and bills payables, accruals and other payables, contract liabilities and bank borrowings, approximate their fair values due to their short maturities. The nominal values less estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group make estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (a) Current and deferred income tax

The Group is subject to income taxes in different jurisdictions. Judgement is required in determining the provision for income taxes in different jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group operates mainly in Hong Kong, the PRC and the U.S. and has transactions with customers and suppliers in different countries. The Group's inter-company transactions and cross-border business arrangements during the ordinary course of business may impose inherent uncertainty over the Group's profit allocation and its respective tax position across different jurisdictions. The tax treatments of these transactions or arrangements may be subject to the interpretation by respective tax authorities in different countries. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax and income tax expense in the year in which such estimates is changed.

### (b) Allowance for impairment of inventories

The Group assesses annually whether any allowance is required to reflect the carrying value of inventories, in accordance with the accounting policy stated in note 2.14. Net realisable values have been determined based on the estimated selling price in the ordinary course of business, less applicable variable selling expenses. This estimation require the use of judgement.

### (c) Useful lives and residual values of property, plant and equipment

Management estimates useful lives and residual values of its property, plant and equipment with reference to the Group's business model, its assets management policy, the industry practice, expected usage of assets, expected repair and maintenance, the technical or commercial obsolescence arising from changes or improvements in market. Depreciation expense would be significantly affected by the useful lives of the property, plant and equipment as estimated by management. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### (d) Leasehold improvements and factories and buildings on a leased land

The Group had a leased land in the PRC for an operating lease of 50 years where the Group's leasehold improvements and factories and buildings situated were without land and property ownership certificates. Without the certificates, the existing factories and buildings might be ordered for demolition or confiscated. The Directors are of the opinion, based on the advice from the Group's external legal adviser, that the Group has proper right to the occupancy of the leased land and legal entitlement to the constructions thereon. It is unlikely to be terminated or interrupted or to have a material effect on the carrying amount of the related leaseholds improvements and factories and buildings of HK$58,007,000 as at 30 April 2019 (2018: HK$58,264,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (e) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statements of comprehensive income.

### (f) Impairment of financial assets

For trade receivables (excluding non-financial assets), the Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables (excluding non-financial assets). The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of reporting period. Management reassesses the provision at the end of each reporting period.

## 5 SEGMENT INFORMATION

The executive Directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the manufacturing and selling of plastic toy products. The chief operating decision-makers assess the performance of the Toys Business based on a measure of operating results and consider the Toys Business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — manufacturing and selling of plastic toy products.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 SEGMENT INFORMATION (CONTINUED)

The Group's revenue by geographical location, which is determined by the continent where the goods were delivered, is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| America | 157,722 | 178,674 |
| Europe | 106,793 | 113,836 |
| Asia Pacific and Oceania | 24,085 | 27,077 |
| Africa | 449 | 809 |
| | 289,049 | 320,396 |

The Group's non-current assets (excluding deferred income tax assets and intangible assets) by geographical location, which is determined by the city/country in which the asset is located, are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Hong Kong | 394 | 453 |
| The PRC | 131,341 | 121,267 |
| | 131,735 | 121,720 |

For the year ended 30 April 2019, there was one (2018: one) customer which individually contributed over 10% of the Group's total revenue. During the year, the revenue contributed from the customer is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Customer A | 70,196 | 61,405 |

The five largest customers accounted for approximately 42.8% (2018: 38.7%) of the revenue of the Group for the year ended 30 April 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 REVENUE

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Sales of goods | 289,049 | 320,396 |

Sales of goods are recognised at point in time as disclosed in note 2.25.

The Group has recognised following liabilities related to contracts with customers:

| | 2019 HK$'000 |
|---|---|
| Contract liabilities (sales of goods) | 1,371 |

Revenue recognised that is included in the contract liabilities balance at the beginning of the year amounted to HK$1,314,000.

## 7 OTHER INCOME

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Sales of scrapped materials | 363 | 547 |
| Sundry income | 368 | 553 |
| | 731 | 1,100 |

## 8 OTHER GAINS, NET

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Exchange gain, net | 2,042 | 1,987 |
| Net gain on disposal of property, plant and equipment | 60 | – |
| | 2,102 | 1,987 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Auditor's remuneration (excluding listing related services) | | |
| — Audit services | 1,130 | 1,152 |
| — Non-audit services | 439 | 783 |
| Advertising and promotion expenses | 1,849 | 6,436 |
| Amortisation of prepaid operating lease (note 16) | 405 | 412 |
| Amortisation of intangible assets (note 18) | 19,297 | 20,900 |
| (Reversal of allowance)/allowance for impairment of inventories (note 19) | (3,545) | 3,804 |
| Bank charges | 1,487 | 1,598 |
| Commissions | 2,578 | 4,065 |
| Consumables | 6,499 | 7,824 |
| Cost of inventories sold (note 19) | 114,021 | 110,162 |
| Custom and declaration handling expenses | 1,440 | 2,655 |
| Depreciation of property, plant and equipment (note 17) | 18,159 | 19,505 |
| Other taxes and surcharges | 3,359 | 4,307 |
| Operating lease expenses | 6,923 | 6,926 |
| Product testing expenses | 373 | 2,009 |
| Repair and maintenance expenses | 1,434 | 1,940 |
| Licenses fees | 6,015 | 12,026 |
| Staff costs, including Directors' emoluments (note 12) | 83,947 | 87,680 |
| Share-based payment expenses (note 28) | 1,320 | – |
| Subcontracting expenses | 1,442 | 1,246 |
| Listing expenses | – | 6,226 |
| Logistics and warehousing expenses | 14,116 | 10,729 |
| Utilities | 10,188 | 11,002 |
| Other expenses | 3,346 | 5,125 |
| | 296,222 | 328,512 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 FINANCE COSTS, NET

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Finance income: | | |
| Bank interest income | 8 | 8 |
| | 8 | 8 |
| Finance expenses: | | |
| Bank overdraft interest | (296) | (313) |
| Other bank borrowing interest | (4,935) | (4,318) |
| | (5,231) | (4,631) |
| Finance costs, net | (5,223) | (4,623) |

## 11 INCOME TAX EXPENSES/(CREDITS)

For the year ended 30 April 2019, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit. The Group's subsidiaries in the PRC are subject to China corporate income tax at a rate of 25% on the estimated assessable profits. The Group's subsidiary in the U.S. is subject to U.S. corporate income tax at progressive tax rates ranged from 5% to 39% on the estimated assessable profit.

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Current taxation | | |
| — Hong Kong profits tax | (154) | 465 |
| — China corporate income tax | 1,319 | (245) |
| — U.S. corporate income tax | 119 | 212 |
| | 1,284 | 432 |
| Deferred taxation | | |
| — Origination and reversal of temporary differences | (755) | (3,016) |
| | (755) | (3,016) |
| Income tax expenses/(credits) | 529 | (2,584) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 INCOME TAX EXPENSES/(CREDITS) (CONTINUED)

The difference between the actual income tax expenses/(credits) charged or credited to the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rates to loss before taxation can be reconciled as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Loss before taxation | (8,832) | (16,308) |
| Tax calculated at domestic tax rates applicable to losses in respective countries | (57) | (1,580) |
| Income not subject to tax | (414) | (155) |
| Expenses not deductible for tax purpose | 845 | 188 |
| Tax losses not recognised | 78 | 256 |
| Utilisation of tax losses previously not recognised | (148) | – |
| Over-provision in prior years | (195) | (1,588) |
| Withholding taxes on unremitted earnings | 420 | – |
| Others | – | 295 |
| Income tax expenses/(credits) | 529 | (2,584) |

For the year ended 30 April 2019, the weighted average applicable tax rate was negative 6.0% (2018: 15.8%)

## 12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Wages, salaries and bonus | 67,602 | 75,670 |
| Retirement benefit costs — defined contribution plan: | | |
| Hong Kong | 990 | 744 |
| The PRC | 8,211 | 6,681 |
| Other benefits | 7,144 | 4,585 |
| | 83,947 | 87,680 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

Remuneration of every Director is set out below:

| | For the year ended 30 April 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries HK$'000 | Discretionary bonuses HK$'000 | Housing benefits HK$'000 | Estimated monetary value of other benefits HK$'000 | Employer's contribution to provident fund HK$'000 | Remunerations paid or payable in respect of accepting office as Director HK$'000 | Emoluments paid or payable in respect of Director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK$'000 | Total HK$'000 |
| **Executive Directors:** | | | | | | | | | |
| Mr. Lo Hung | – | 720 | – | – | – | – | – | – | 720 |
| Ms. Leung Siu Lin Esther | – | 720 | – | – | – | – | – | – | 720 |
| Mr. Lo Shiu Kee Kenneth | – | 1,950 | 150 | – | – | 18 | – | – | 2,118 |
| Ms. Lo Shiu Shan Suzanne | – | 1,300 | 100 | – | – | 18 | – | – | 1,418 |
| Ms. Sin Lo Siu Wai Sylvia | – | 1,300 | 100 | – | – | 18 | – | – | 1,418 |
| **Independent non-executive Directors:** | | | | | | | | | |
| Ms. Tse Yuen Shan | 50 | – | – | – | – | – | – | – | 50 |
| Mr. Man Ka Ho Donald | 50 | – | – | – | – | – | – | – | 50 |
| Mr. Szeto Chi Yan Stanley | 11 | – | – | – | – | – | – | – | 11 |
| Mr. Cheng Dominic | 39 | – | – | – | – | – | – | – | 39 |
| | 150 | 5,990 | 350 | – | – | 54 | – | – | 6,544 |

| | For the year ended 30 April 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries HK$'000 | Discretionary bonuses HK$'000 | Housing benefits HK$'000 | Estimated monetary value of other benefits HK$'000 | Employer's contribution to provident fund HK$'000 | Remunerations paid or payable in respect of accepting office as Director HK$'000 | Emoluments paid or payable in respect of Director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK$'000 | Total HK$'000 |
| **Executive Directors:** | | | | | | | | | |
| Mr. Lo Hung | – | 440 | – | – | – | – | – | – | 440 |
| Ms. Leung Siu Lin Esther | – | 440 | – | – | – | – | – | – | 440 |
| Mr. Lo Shiu Kee Kenneth | – | 1,609 | – | – | – | 18 | – | – | 1,627 |
| Ms. Lo Shiu Shan Suzanne | – | 1,067 | – | – | – | 18 | – | – | 1,085 |
| Ms. Sin Lo Siu Wai Sylvia | – | 1,160 | – | – | – | 18 | – | – | 1,178 |
| **Independent non-executive Directors:** | | | | | | | | | |
| Ms. Tse Yuen Shan | 31 | – | – | – | – | – | – | – | 31 |
| Mr. Man Ka Ho Donald | 31 | – | – | – | – | – | – | – | 31 |
| Mr. Szeto Chi Yan Stanley | 30 | – | – | – | – | – | – | – | 30 |
| | 92 | 4,716 | – | – | – | 54 | – | – | 4,862 |

No Directors and chief executives of the Company waived any emoluments during the year ended 30 April 2019 (2018: Nil). The emoluments shown above represent remuneration received from the Group by these executive Directors in their capacity as employees to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (b) Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 30 April 2019 include three (2018: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2018: two) individuals during the year ended 30 April 2019 are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, commissions, bonuses, other allowances and benefits in kind | 2,428 | 2,524 |
| Employer's contribution to provident fund | 33 | 36 |
| | 2,461 | 2,560 |

The emoluments of these individuals are within the following bands:

| | Number of individual<br>2019 | 2018 |
|---|---|---|
| Emoluments bands | | |
| HK$Nil–1,000,000 | – | – |
| HK$1,000,001–1,500,000 | 2 | 2 |
| | 2 | 2 |

## 14 DIVIDENDS

For the year ended 30 April 2019, no dividend was declared or paid by the Company.

Dividends during the year ended 30 April 2018 represented dividends declared by Kiddieland Industrial Limited to its then equity holders. The rates of dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

At the Board meeting held on 15 September 2017, the Board declared an interim dividend of HK$10,000 per share amounting to HK$100,000,000 before the listing on the Main Board of the Hong Kong Stock Exchange and HK$98,593,000 was net-off with the amounts due from the shareholders and related entities owned by them.

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Declared and paid interim dividend | – | 100,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOSS PER SHARE

### (a) Basic loss per share

| | 2019 | 2018 |
|---|---|---|
| Loss attributable to the owners of the Company (HK$'000) | (9,361) | (13,724) |
| Weighted average number of ordinary shares in issue (in thousand) | 1,000,000 | 902,055 |
| Basic loss per share (HK cents) | (0.9) | (1.5) |

Basic loss per share is calculated by dividing the loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the years ended 30 April 2019 and 2018.

### (b) Diluted loss per share

Diluted loss per share for the year ended 30 April 2019 is the same as basic loss per share as the potential ordinary shares in relation to the share options granted to the employees (note 28) are anti-dilutive and we do not assume any conversation or exercise. Diluted loss per share for the year ended 30 April 2018 is the same as basic loss per share as there were no potentially dilutive ordinary shares issued.

## 16 PREPAID OPERATING LEASE

The Group's prepaid operating lease's net book value is analysed as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Held in the PRC | 12,330 | 13,204 |

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Beginning of the year | 13,204 | 12,896 |
| Less: amortisation (note 9) | (405) | (412) |
| Exchange differences | (469) | 720 |
| End of the year | 12,330 | 13,204 |

As at 30 April 2019, the carrying amount of the prepaid operating lease for the land that was in the process of obtaining the land certificate was HK$12,330,000 (2018: HK$13,204,000). In the opinion of the Directors, based on the advice of the Group's external legal adviser, the absence of the land certificate does not have adverse impact on the right of use of land.

Amortisation of prepaid operating lease has been charged to cost of sales during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Factories and buildings HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Moulds and tools HK$'000 | Moulds work-in-progress HK$'000 | Construction in-progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 May 2017** | | | | | | | | | | |
| Cost | 60,080 | 55,148 | 10,884 | 8,952 | 9,528 | 89,133 | 235,849 | 6,981 | – | 476,555 |
| Accumulated depreciation | (43,045) | (15,143) | (9,846) | (8,737) | (9,339) | (80,425) | (209,799) | – | – | (376,334) |
| Net book value | 17,035 | 40,005 | 1,038 | 215 | 189 | 8,708 | 26,050 | 6,981 | – | 100,221 |
| **Year ended 30 April 2018** | | | | | | | | | | |
| Opening net book value | 17,035 | 40,005 | 1,038 | 215 | 189 | 8,708 | 26,050 | 6,981 | – | 100,221 |
| Addition | 2,414 | – | 94 | 443 | 121 | 1,533 | 1,521 | 13,388 | 4,197 | 23,711 |
| Depreciation for the year (note 9) | (4,110) | (1,103) | (474) | (206) | (31) | (2,361) | (11,220) | – | – | (19,505) |
| Transfer upon completion | 3,429 | – | – | – | – | – | 10,460 | (10,460) | (3,429) | – |
| Exchange differences | 594 | – | 38 | 3 | 28 | 306 | 1,218 | 789 | 49 | 3,025 |
| Net book value | 19,362 | 38,902 | 696 | 455 | 307 | 8,186 | 28,029 | 10,698 | 817 | 107,452 |
| **As at 30 April 2018 and 1 May 2018** | | | | | | | | | | |
| Cost | 66,636 | 55,148 | 11,042 | 9,411 | 9,679 | 91,095 | 249,256 | 10,698 | 817 | 503,782 |
| Accumulated depreciation | (47,274) | (16,246) | (10,346) | (8,956) | (9,372) | (82,909) | (221,227) | – | – | (396,330) |
| Net book value | 19,362 | 38,902 | 696 | 455 | 307 | 8,186 | 28,029 | 10,698 | 817 | 107,452 |
| **Year ended 30 April 2019** | | | | | | | | | | |
| Opening net book value | 19,362 | 38,902 | 696 | 455 | 307 | 8,186 | 28,029 | 10,698 | 817 | 107,452 |
| Addition | 2,529 | – | – | 292 | – | 3,190 | 239 | 21,940 | 4,334 | 32,524 |
| Depreciation for the year (note 9) | (4,009) | (1,103) | (365) | (257) | (113) | (2,296) | (10,016) | – | – | (18,159) |
| Transfer upon completion | 2,874 | – | – | – | – | – | 18,433 | (18,433) | (2,874) | – |
| Exchange differences | (548) | – | (20) | (1) | (19) | (270) | (1,000) | (558) | (68) | (2,484) |
| Net book value | 20,208 | 37,799 | 311 | 489 | 175 | 8,810 | 35,685 | 13,647 | 2,209 | 119,333 |
| **As at 30 April 2019** | | | | | | | | | | |
| Cost | 71,387 | 55,148 | 11,000 | 9,693 | 9,658 | 92,912 | 266,712 | 13,647 | 2,209 | 532,366 |
| Accumulated depreciation | (51,179) | (17,349) | (10,689) | (9,204) | (9,483) | (84,102) | (231,027) | – | – | (413,033) |
| Net book value | 20,208 | 37,799 | 311 | 489 | 175 | 8,810 | 35,685 | 13,647 | 2,209 | 119,333 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of the Group's property, plant and equipment has been recognised as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Cost of sales | 17,773 | 19,258 |
| Administrative expenses | 386 | 247 |
| | 18,159 | 19,505 |

As at 30 April 2019, the Group was in the process of obtaining the property ownership certificates of the leasehold improvements and factory and building in the PRC with carrying amounts of approximately HK$58,007,000 (2018: HK$58,264,000). In the opinion of the Directors, based on the advice from the Group's external legal adviser, the absence of the property ownership certificates of these properties does not affect the right of use of these factories and buildings. The Directors considered that the absence of the property ownership certificates does not impair their carrying values to the Group as the Group were permitted for construction on the leased land and the probability of being evicted on the ground of an absence of property ownership certificate was remote.

## 18 INTANGIBLE ASSETS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Licenses | 11,853 | 29,343 |
| Beginning of the year | 29,343 | 29,009 |
| Addition | 1,807 | 21,234 |
| Less: amortisation (note 9) | (19,297) | (20,900) |
| End of the year | 11,853 | 29,343 |

Licenses represent minimum payments under license arrangement for non-exclusive rights of manufacturing toy products with specific cartoon icons and distributing to certain countries. Amortisation of intangible assets is charged to cost of sales.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 INVENTORIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials | 29,993 | 30,743 |
| Work-in-progress | 39,063 | 43,171 |
| Finished goods | 50,213 | 44,354 |
| Allowance for impairment of inventories | (1,190) | (4,735) |
| | 118,079 | 113,533 |

The cost of inventories recognised as expense and included in cost of sales amounted to HK$110,476,000 (2018: HK$113,966,000) which included reversal of allowance for impairment of inventories of HK$3,545,000 (2018: allowance for impairment of inventories HK$3,804,000) for the year ended 30 April 2019.

Movement of the Group's allowance for impairment of inventories is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Beginning of the year | (4,735) | (931) |
| Credited/(charged) to consolidated statement of comprehensive income (note 9) | 3,545 | (3,804) |
| End of the year | (1,190) | (4,735) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade and bills receivables | 31,273 | 25,932 |
| Less: loss allowance (note 3.1(b)) | (5,925) | (6,656) |
| Trade and bills receivables, net | 25,348 | 19,276 |
| Deposits | 119 | 119 |
| Prepayments | 4,286 | 2,746 |
| Other receivables | 1,100 | 1,167 |
| | 5,505 | 4,032 |
| Less: prepayment for property, plant and equipment classified as non-current asset | (72) | (1,064) |
| Current portion | 5,433 | 2,968 |

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Note 3.1(b) provides more details about the calculation of loss allowance.

The other classes within trade and bills receivables and other receivables do not contain any impaired assets. The Group does not hold any collateral as security.

As at 30 April 2019, the expected credit losses for other receivables were immaterial thus no loss allowance was made (2018: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The carrying amounts of trade and bills receivables, other receivables, deposits and prepayments approximate their fair values.

The gross carrying amounts of trade and bills receivables are denominated in the following currencies:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| US$ | **31,848** | 26,089 |
| RMB | **3,773** | 2,675 |
| HK$ | **1,157** | 1,200 |
| | **36,778** | 29,964 |

The Group grants credit periods to customers ranged from 0 to 180 days. As at 30 April 2019, the ageing analysis of trade and bills receivables based on invoice date is as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Up to 3 months | **24,148** | 22,730 |
| Over 3 months | **7,125** | 3,202 |
| | **31,273** | 25,932 |

## 21 CASH AND BANK BALANCES

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Cash at banks | **19,184** | 43,054 |
| Cash on hand | **208** | 186 |
| | **19,392** | 43,240 |
| Maximum exposure to credit risk | **19,184** | 43,054 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 CASH AND BANK BALANCES (CONTINUED)

Cash and bank balances are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| US$ | 1,697 | 2,719 |
| HK$ | 16,389 | 39,570 |
| RMB | 1,306 | 951 |
| | 19,392 | 43,240 |

As at 30 April 2019, cash and bank balances of HK$4,687,000 (2018: HK$1,042,000) were held in the PRC and were subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Cash and cash equivalents include the followings for the purposes of the consolidated statement of cash flows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Cash at banks | 19,184 | 43,054 |
| Cash on hand | 208 | 186 |
| Bank overdrafts (note 25) | (18,420) | (37,655) |
| | 972 | 5,585 |

## 22 SHARE CAPITAL

| | As at 30 April 2019 | | As at 30 April 2018 | |
|---|---|---|---|---|
| | Number of shares (in thousand) | Nominal value HK$'000 | Number of shares (in thousand) | Nominal value HK$'000 |
| Authorised: | | | | |
| Ordinary shares of HK$0.1 each at the end of the year | 10,000,000 | 1,000,000 | 10,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.1 each | | | | |
| At beginning of the year | 1,000,000 | 100,000 | 10 | 1 |
| Issuance of ordinary shares upon capitalisation issue (note (i)) | – | – | 749,990 | 74,999 |
| Issuance of ordinary shares upon initial public offering (note (ii)) | – | – | 250,000 | 25,000 |
| At end of the year | 1,000,000 | 100,000 | 1,000,000 | 100,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 SHARE CAPITAL (CONTINUED)

Notes:

(i) On 21 September 2017, an amount of HK$74,999,000 was capitalised from share premium to share capital of the Company.

(ii) On 21 September 2017, 250,000,000 ordinary shares of HK$0.1 each were issued at an offer price of HK$0.48 per share for a total consideration of HK$120,000,000 with HK$79,876,000 credited to the share premium account of the Company, after taking into account of the issuance costs of HK$15,124,000.

## 23 OTHER RESERVES

| | Share premium HK$'000 | Share-based payment reserves HK$'000 | Capital reserves HK$'000 | Exchange reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 May 2017 | – | – | 45 | (3,310) | 147,196 | 143,931 |
| Loss for the year | – | – | – | – | (13,724) | (13,724) |
| Other comprehensive income: | | | | | | |
| — Currency translation differences | – | – | – | 5,726 | – | 5,726 |
| | – | – | – | 5,726 | – | 5,726 |
| Total comprehensive loss | – | – | – | 5,726 | (13,724) | (7,998) |
| Transactions with owners: | | | | | | |
| Issuance of ordinary shares upon capitalisation issue | (74,999) | – | – | – | – | (74,999) |
| Issuance of ordinary shares upon initial public offering | 95,000 | – | – | – | – | 95,000 |
| Share issuance costs | (15,124) | – | – | – | – | (15,124) |
| Dividends paid (note 14) | – | – | – | – | (100,000) | (100,000) |
| | 4,877 | – | – | – | (100,000) | (95,123) |
| At 30 April 2018 | 4,877 | – | 45 | 2,416 | 33,472 | 40,810 |
| At 1 May 2018 | **4,877** | **–** | **45** | **2,416** | **33,472** | **40,810** |
| Loss for the year | **–** | **–** | **–** | **–** | **(9,361)** | **(9,361)** |
| Other comprehensive loss: | | | | | | |
| — Currency translation differences | **–** | **–** | **–** | **(4,825)** | **–** | **(4,825)** |
| | **–** | **–** | **–** | **(4,825)** | **–** | **(4,825)** |
| Total comprehensive loss | **–** | **–** | **–** | **(4,825)** | **(9,361)** | **(14,186)** |
| Transactions with owners: | | | | | | |
| Employees' share option scheme (note 28) | **–** | **1,320** | **–** | **–** | **–** | **1,320** |
| | **–** | **1,320** | **–** | **–** | **–** | **1,320** |
| At 30 April 2019 | **4,877** | **1,320** | **45** | **(2,409)** | **24,111** | **27,944** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Tax losses | Decelerated tax depreciation | Others | Capital injection (note (i)) | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Deferred income tax assets:** | | | | | |
| At 1 May 2017 | – | 1,104 | 32 | 2,601 | 3,737 |
| Credited/(charged) to consolidated statement of comprehensive income | 4,344 | (90) | (30) | (825) | 3,399 |
| At 30 April 2018 and 1 May 2018 | 4,344 | 1,014 | 2 | 1,776 | 7,136 |
| Credited/(charged) to consolidated statement of comprehensive income | 2,314 | (52) | 18 | (828) | 1,452 |
| Set-off of deferred income tax liabilities pursuant to set-off provisions | (519) | – | – | – | (519) |
| At 30 April 2019 | 6,139 | 962 | 20 | 948 | 8,069 |

| | Accelerated tax depreciation | Unremitted earnings (note(ii)) | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Deferred income tax liabilities:** | | | |
| At 1 May 2017 | (3,776) | – | (3,776) |
| Charged to consolidated statement of comprehensive income | (383) | – | (383) |
| At 30 April 2018 and 1 May 2018 | (4,159) | – | (4,159) |
| Credited to consolidated statement of comprehensive income | (260) | (437) | (697) |
| Set-off of deferred income tax liabilities pursuant to set-off provisions | 519 | – | 519 |
| At 30 April 2019 | (3,900) | (437) | (4,337) |

Notes:

(i) In the prior years, the Group injected certain machineries into Dongguan Kiddieland Industrial Co., Ltd.. According to the relevant rules in the PRC, the machineries are recognised at fair values at the time of injection for tax reporting purpose. Deferred income tax assets are recognised for the temporary differences arose.

(ii) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors, For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$2,919,000 (2018: HK$2,739,000) as at 30 April 2019, in respect of losses amounting to HK$15,062,000 (2018: HK$13,866,000) as at 30 April 2019 as it is not certain that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities.

The expiry date of these tax losses are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Expiring in year 2019 | 753 | 800 |
| Expiring in year 2020 | 1,200 | 1,274 |
| Expiring in year 2021 | 2,966 | 3,149 |
| Expiring in year 2022 | 83 | 89 |
| Expiring in year 2023 | 100 | – |
| Without expiry date | 9,960 | 8,554 |
| | 15,062 | 13,866 |

## 25 BANK BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank overdrafts (note 21) | 18,420 | 37,655 |
| Bank borrowings, secured | 119,813 | 85,505 |
| | 138,233 | 123,160 |
| Less: non-current portion | – | (5,000) |
| Current portion | 138,233 | 118,160 |

Borrowings due for repayment after one year which contain a repayment on demand clause are classified as current liabilities. All borrowings and overdrafts are wholly repayable within 5 years.

The bank borrowings as at the end of reporting period are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| US$ | 38,557 | 35,967 |
| HK$ | 99,676 | 87,193 |
| | 138,233 | 123,160 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 BANK BORROWINGS (CONTINUED)

The following is a schedule of repayments of the bank borrowings in respect of the outstanding borrowings, based on the scheduled repayment terms set out in the loan agreements, as at the end of reporting period:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within 1 year | 134,483 | 106,050 |
| Between 1 to 2 years | 3,750 | 13,360 |
| Between 2 to 5 years | – | 3,750 |
| | 138,233 | 123,160 |

The fair values of the bank borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The weighted average effective interest rates for the year ended 30 April 2019 are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank overdrafts | 5.66% | 5.52% |
| Bank borrowings, secured | 4.31% | 3.79% |

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 6 months or less | 138,233 | 123,160 |

The Group has the following undrawn bank borrowing facilities:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Expiring within 1 year | 145,117 | 106,931 |

As at 30 April 2019, the Group had total banking facilities of approximately HK$283,350,000 granted by banks which are subject to annual review for renewal. Subsequent to the year-end date, the Group has successfully renewed banking facilities of approximately HK$185,100,000 which included replacing a revolving loan of HK$30,000,000 with a 5-year committed term loan. The new term loan is repayable over 5 years by monthly equal instalments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables based on invoice date is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within 1 month | 13,365 | 10,435 |
| 1–2 months | 6,036 | 5,936 |
| 2–3 months | 969 | 957 |
| Over 3 months | 870 | 2,750 |
| | 21,240 | 20,078 |

Trade and bills payables are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| US$ | 5,534 | 1,787 |
| HK$ | 10,983 | 12,313 |
| RMB | 4,723 | 5,978 |
| | 21,240 | 20,078 |

The carrying amounts of trade and bills payables approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 ACCRUALS AND OTHER PAYABLES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Accrued expenses | | |
| — Staff costs | 6,051 | 6,852 |
| — Utilities | 981 | 1,033 |
| — Freight expenses | 564 | 98 |
| — Professional services fees | 1,202 | 1,182 |
| — Licenses fees | 625 | 270 |
| — Interest expenses | 203 | 280 |
| Provision for employees' benefits | | |
| — Other benefits | 259 | 489 |
| Advance receipts | – | 1,314 |
| Licenses liabilities | 8,059 | 26,148 |
| Other accruals | 6,221 | 5,937 |
| Other payables | 3,378 | 8,127 |
| | 27,543 | 51,730 |
| Less: non-current portion | (58) | (9,593) |
| Current portion | 27,485 | 42,137 |

The carrying amounts of accruals and other payables are denominated in the following currencies:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| US$ | 9,761 | 31,027 |
| RMB | 11,478 | 13,315 |
| HK$ | 6,298 | 7,382 |
| Others | 6 | 6 |
| | 27,543 | 51,730 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 SHARE-BASED PAYMENT EXPENSES

On 19 July 2018, the Group granted certain selected employees share options (the "**Share Options**") which enable them to subscribe 20,000,000 ordinary shares of the Company at an exercise price of HK$0.28 per share. The Share Options are fully vested on 19 July 2018 and are exercisable within three years from 19 July 2018 to 18 July 2021 (both dates inclusive).

The weighted average fair value of the Share Options granted determined by using the Binomial Options Pricing Model was HK$0.066 per share option. The significant inputs into the model were annualised volatility of 44%, exercise multiple of 2.2 and expected dividend yield of 0%. The share-based payment expenses incurred for the Share Options for the year ended 30 April 2019 were HK$1,320,000.

## 29 NET CASH GENERATED FROM OPERATIONS

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Loss before taxation | **(8,832)** | (16,308) |
| Adjustment for: | | |
| Interest income | **(8)** | (8) |
| Interest expenses | **5,231** | 4,631 |
| Depreciation (note 17) | **18,159** | 19,505 |
| Amortisation of prepaid operating lease (note 16) | **405** | 412 |
| Amortisation of intangible assets (note 18) | **19,297** | 20,900 |
| Share-based payment expenses (note 28) | **1,320** | – |
| Gain on disposal of property, plant and equipment (note 8) | **(60)** | – |
| (Reversal of impairment losses)/impairment losses on financial assets, net | **(731)** | 6,656 |
| (Reversal of allowance)/allowance for impairment of inventories (note 19) | **(3,545)** | 3,804 |
| | **31,236** | 39,592 |
| Changes in working capital: | | |
| Increase in inventories | **(3,638)** | (7,221) |
| (Increase)/decrease in trade and bills receivables | **(5,399)** | 12,889 |
| (Increase)/decrease in other receivables, deposits and prepayments | **(2,636)** | 1,048 |
| Increase in trade and bills payables | **1,440** | 1,447 |
| Decrease in accruals, other payables and contract liabilities | **(3,715)** | (1,643) |
| Cash generated from operations | **17,288** | 46,112 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 NET CASH GENERATED FROM OPERATIONS (CONTINUED)

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Net book value | – | – |
| Net gain on disposal of property, plant and equipment | 60 | – |
| Proceeds from disposal of property, plant and equipment | 60 | – |

### (a) Non-cash transaction

During the year ended 30 April 2018, the Group declared an interim dividend of HK$98,593,000 and offset with the amount due from Esther & Victor Limited which did not result in any cash flow.

### (b) Net debt reconciliation

This section sets out an analysis of net debt at the end of reporting period and the movements in net debt during the reporting period.

| | 2019 HK'000 |
|---|---|
| Net debt | |
| Cash and cash equivalents | 19,392 |
| Borrowings — repayable within one year (including bank overdrafts) | (134,483) |
| Borrowings — repayable after one year | (3,750) |
| Net debt | (118,841) |
| Cash and liquid investments | 19,392 |
| Gross debt — variable interest rates | (138,233) |
| Net debt | (118,841) |

| | | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash and bank balances HK$'000 | Bank overdrafts HK$'000 | Borrowings due within 1 year HK$'000 | Borrowings due after 1 year HK$'000 |
| Net debt as at 1 May 2018 | 43,240 | 37,655 | 68,395 | 17,110 |
| Cash flows | (23,811) | (19,235) | 39,308 | (5,000) |
| Foreign exchange adjustments | (37) | – | – | – |
| Other non-cash movements | – | – | 8,360 | (8,360) |
| Net debt as at 30 April 2019 | 19,392 | 18,420 | 116,063 | 3,750 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Financial assets — at amortised cost: | | |
| Trade and bills receivables | **25,348** | 19,276 |
| Other receivables and deposits | **1,219** | 1,286 |
| Cash and bank balances | **19,392** | 43,240 |
| | **45,959** | 63,802 |
| Financial liabilities — at amortised cost: | | |
| Trade and bills payables | **21,240** | 20,078 |
| Accruals and other payables | **13,174** | 16,927 |
| Licenses liabilities | **8,059** | 26,148 |
| Bank borrowings | **138,233** | 123,160 |
| | **180,706** | 186,313 |

## 31 COMMITMENTS

### (a) Capital commitments

At the end of each reporting period, the Group had the following capital commitments:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Authorised but not contracted for: | | |
| Land use right | **25,599** | 27,183 |
| Contracted but not provided for: | | |
| Property, plant and equipment | **720** | 1,096 |

### (b) Operating lease commitments

The Group acts as lessee under operating leases for its office and warehouse locations. At the end of each reporting period, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Within 1 year | **6,275** | 1,022 |
| Between 2 to 5 years | **480** | 295 |
| | **6,755** | 1,317 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 RELATED PARTY TRANSACTIONS

### (a) Name of related parties

The Directors of the Company are of the view that the following parties/companies were related parties that had transactions or balances with the Group during the year:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Lo Hung | Controlling shareholder and executive Director of the Company |
| Ms. Leung Siu Lin Esther | Controlling shareholder and executive Director of the Company |
| Mr. Lo Shiu Kee Kenneth | Controlling shareholder and executive Director of the Company |
| Ms. Lo Shiu Shan Suzanne | Controlling shareholder and executive Director of the Company |
| Ms. Sin Lo Siu Wai Sylvia | Controlling shareholder and executive Director of the Company |
| Esther & Victor Limited | Controlled by the controlling shareholders |
| Top Dragon Enterprise Investment Limited | Controlled by the controlling shareholders |

### (b) Transactions with related parties

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Rental expenses | | |
| Operating lease expense for office paid or payable to Top Dragon Enterprise Investment Limited (note (i)) | 5,760 | 5,760 |

Note:

(i) Office leasing expense was paid at terms mutually agreed with the relevant parties involved.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) Year-end balances with related parties

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Operating lease expense payable to: | | |
| Top Dragon Enterprise Investment Limited | 960 | – |

The carrying amounts approximate their fair values and are denominated in HK$.

### (d) Key management compensation

Key management includes Directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Wages, salaries and bonuses | 11,927 | 10,317 |
| Retirement benefits | 459 | 162 |
| Other benefits | 240 | 240 |
| | 12,626 | 10,719 |

### (e) Other arrangement

During the year ended 30 April 2019, two related companies, Esther & Victor Limited and Top Dragon Enterprise Investment Limited, pledged their properties to banks to make available to the Group's bank facilities of HK$256,350,000.

## 33 CONTINGENT LIABILITIES

As at 30 April 2019, the Group has contingent liabilities as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Irrevocable standby letter of credit | 3,026 | 4,445 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 SUBSIDIARIES

| Name of subsidiaries | Place of incorporation | Date of incorporation/ establishment | Principal business | Particulars of issued share capital and debt securities | Proportion of ordinary shares directly held by the Company 2019 | 2018 |
|---|---|---|---|---|---|---|
| Kiddieland Group Limited | British Virgin Islands ("**BVI**") | 30 May 2016 | Investment holding | 10,000 ordinary shares of US$1 | 100% | 100% |
| Kiddieland Trading Limited | BVI | 30 May 2016 | Investment holding | 10,000 ordinary shares of US$1 | 100% | 100% |
| Kiddieland Manufacturing Limited | BVI | 30 May 2016 | Investment holding | 10,000 ordinary shares of US$1 | 100% | 100% |
| Kiddieland Toys Limited | Hong Kong | 7 May 2001 | Sales and marketing of toys | 10,000 ordinary shares of HK$1 | 100% | 100% |
| Kiddieland Industrial Limited | Hong Kong | 3 October 1997 | Toys development, manufacturing activities and managing the production facilities in Tangxia, Dongguan, Guangdong Province, the PRC | 10,000 ordinary shares of HK$1 | 100% | 100% |
| Innotech & Associates Limited | Hong Kong | 7 August 1998 | Merchandising of production materials for toys and providing design services for all graphic design requirements in toys production | 10,000 ordinary shares of HK$1 | 100% | 100% |
| W. Great Worth Limited | Hong Kong | 30 May 1997 | Providing management services to our Group | 10,000 ordinary shares of HK$1 | 100% | 100% |
| Kiddieland Toy, Inc. | United States of America ("**U.S.**") | 8 June 1999 | Import and distribution of toy products in U.S. | 60 ordinary shares of US$10 | 100% | 100% |
| Kiddieland Toy Limited | England and Wales | 29 December 1999 | Representative office | 100 ordinary shares of GBP1 | 100% | 100% |
| 東莞童夢園玩具有限公司 (Dongguan Kiddieland Toys Co., Ltd.) | People's Republic of China ("**PRC**") | 18 June 2008 | Sales of toy products in the PRC | HK$8,400,000 | 100% | 100% |
| 東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd.) | PRC | 20 January 2014 | Manufacturing of toy products | HK$54,000,000 | 100% | 100% |
| 東莞精勵塑膠電子有限公司 (Dongguan Innotech Jingli Ltd.) | PRC | 16 October 2018 | Manufacturing of toy products | HK$5,000,000 | 100% | 100% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current asset** | | |
| Investment in a subsidiary | 152,392 | 152,392 |
| **Current assets** | | |
| Prepayments | 629 | 327 |
| Amounts due from subsidiaries | 80,748 | 80,312 |
| Cash and bank balances | 156 | 103 |
| | 81,533 | 80,742 |
| **Total assets** | 233,925 | 233,134 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | |
| Share capital | 100,000 | 100,000 |
| Share premium | 157,268 | 157,268 |
| Share-based payment reserves | 1,320 | – |
| Accumulated losses | (24,811) | (24,387) |
| **Total equity** | 233,777 | 232,881 |
| **LIABILITIES** | | |
| **Current liability** | | |
| Accruals | 148 | 253 |
| **Total liabilities** | 148 | 253 |
| **Total equity and liabilities** | 233,925 | 233,134 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

| | Share premium (note(i)) HK$'000 | Accumulated losses HK$'000 | Share-based payment reserves HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 May 2017 | 152,391 | (17,266) | – | 135,125 |
| Loss for the year | – | (7,121) | – | (7,121) |
| Transactions with owners: | | | | |
| Issuance of ordinary shares upon capitalisation issue | (74,999) | – | – | (74,999) |
| Issuance of ordinary shares upon initial public offering | 95,000 | – | – | 95,000 |
| Share issuance costs | (15,124) | – | – | (15,124) |
| At 30 April 2018 and 1 May 2018 | 157,268 | (24,387) | – | 132,881 |
| Loss for the year | **–** | **(424)** | **–** | **(424)** |
| Transactions with owners: | | | | |
| Employee's share option scheme | **–** | **–** | **1,320** | **1,320** |
| At 30 April 2019 | **157,268** | **(24,811)** | **1,320** | **133,777** |

Note:

(i) Share premium of HK$152,391,000 represented the difference between the carrying values of the Group subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.

## 36 SUBSEQUENT EVENTS

Save as disclosed in notes 3.1(c) and 25, the Group does not have other subsequent events.

# FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years is as follows:

## RESULTS

| | Year ended 30 April | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **289,049** | 320,396 | 367,146 | 445,756 | 520,966 |
| (Loss)/profit before taxation | **(8,832)** | (16,308) | 19,474 | 47,611 | 46,176 |
| Income tax (expenses)/credits | **(529)** | 2,584 | 3,110 | (13,586) | (9,644) |
| (Loss)/profit for the year | **(9,361)** | (13,724) | 22,584 | 34,025 | 36,532 |
| Attributable to: | | | | | |
| Shareholders of the Company | **(9,361)** | (13,724) | 22,584 | 34,025 | 36,532 |

## ASSETS AND LIABILITIES

| | As at 30 April | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | | |
| Non-current assets | **151,657** | 158,199 | 147,500 | 148,055 | 160,776 |
| Current assets | **169,389** | 182,767 | 254,613 | 315,271 | 300,316 |
| Total assets | **321,046** | 340,966 | 402,113 | 463,326 | 461,092 |
| **Equity and liabilities** | | | | | |
| Total equity | **127,944** | 140,810 | 143,932 | 183,631 | 178,404 |
| Non-current liabilities | **4,395** | 18,752 | 27,325 | 17,777 | 15,647 |
| Current liabilities | **188,707** | 181,404 | 230,856 | 261,918 | 267,041 |
| Total liabilities | **193,102** | 200,156 | 258,181 | 279,695 | 282,688 |
| Total equity and liabilities | **321,046** | 340,966 | 402,113 | 463,326 | 461,092 |

Notes: (i) The summary of the consolidated results of the Group for the three years ended 30 April 2015, 2016 and 2017 and of the assets, equity and liabilities as at 30 April 2015, 2016 and 2017 are extracted from the Prospectus.

(ii) The summary of the consolidated results of the Group for the years ended 30 April 2018 and 2019 and of the assets, equity and liabilities as at 30 April 2018 and 2019 are extracted from the Company's published audited financial statements.