kidsland

凱知樂

kidsland international holdings limited

凱知樂國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2122)

2019 Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lee Ching Yiu *(Chairman and Chief Executive Officer)*
Mr. Hung Shing Ming
Ms. Zhong Mei

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Huang Lester Garson *(Chairman)*
Mr. Lee Ching Yiu
Mr. Cheng Yuk Wo

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Chun Yeung Darren

AUTHORISED REPRESENTATIVES

Mr. Lee Ching Yiu
Mr. Chan Chun Yeung Darren

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F Prince's Building
Central, Hong Kong

REGISTERED OFFICE

Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

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

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20 Jiuxianqiao Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F Times Tower
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Wan Chai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
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

PRINCIPAL BANKERS

Hong Kong
Bank of China (Hong Kong) Limited
OCBC Wing Hang Bank Limited

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

LEGAL ADVISER AS TO HONG KONG LAW

Sidley Austin
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Central, Hong Kong

COMPANY'S WEBSITE

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

STOCK CODE

2122

CHAIRMAN'S STATEMENT

2019 and 2020 are likely to be remembered as an unusually turbulent time, with plentiful social, political and economic crisis and challenges. The Sino-US trade tension and social unrest in Hong Kong, which commenced from mid-2019 had put significant pressure to many businesses in Mainland China ("Mainland") and Hong Kong. The unexpected outbreak of the Coronavirus Disease 2019 (COVID-19) and its inconceivable impact on people's life and business escalates uncertainty to new heights.

At a trying time like this, it actually forces us to think and act more critically what we should do as a business to thrive in the new market environment. What unique value we bring to the consumers and our business partners of the future? How would we organise differently to cope with the market of the future? We cannot control external factors but can focus on transforming ourselves and managing the risks along the way, as we map out later.

Firstly, let's review our performance in the past year. In 2019, we focused on executing our turnaround plan to enhance brand and channel effectiveness, and our operational efficiency. We have made steady progress. In 2019, we managed to grow our revenue by 3.6% which is no mean feat against an extremely challenging operating environment. Secondly, we managed to decrease our total selling, distribution and general administrative expenses by RMB40.3 million to RMB739.0 million in 2019. As a result, we managed to turn Adjusted EBITDA[1] positive to be approximately RMB17.7 million in 2019 compared to an Adjusted EBITDA[1] Loss of RMB3.8 million in 2018. We showed better improvement in the first half of 2019 but the pace of the return to profitability suffered a setback due to the re-escalation of the Sino-US trade tension and unexpected social unrest in Hong Kong, in the second half of 2019.

More importantly, looking into the future, how do we address the questions asked at the opening paragraph? The outbreak of COVID-19 and the ensuing impact have dramatically changed people's life and behaviour, so as to business. It will leave a lasting mark. Digitalization has become a must and driving force for all business to be future-ready. Ultimately we have to transform into a data-driven, customer-centric platform and digitalized organisation that connects with suppliers, business partners and end-consumers. We have to focus on delivering unique value to end-consumers and business partners by such measures. The strategy will kick off from this year and will go deeper and wider with different developmental stages in the years to come. The digitalization of our whole organization and ecosystem, from our staff, our business partners and end-consumers, will greatly improve communication and operation efficiency and better predictability for the future. It will greatly increase our proactiveness to the external changes. More importantly, it will build the digital assets for us to project the future trend with higher precision. Moreover, our business platform will be open-ended and ready to be an eco-system connecting end-consumers and our business partners. Such efforts will greatly enhance our competitive advantage, in building a sustainable business.

As a first step, internally, we will build a lean, flexible and fully digitalised organisation connecting the front line field staff, sales and marketing team, at all levels and across functions, direct to the back office support including logistics and finance. The communication will be digitalised to reduce the gap in transmission and also increase productivity. It will also enhance our responsiveness to the market needs and changes. Therefore it will help us capture market opportunities and consolidate market share following the permanent damage brought by COVID-19 outbreak. The new organisation would be data-driven, goal-oriented and performance-based with learning culture, anchored by a comprehensive performance review and incentive system. It focuses on productivity but also encourages innovation.

Externally, we will focus on end-consumer and business partner management. For end-consumers, everyone no matter acquired from online e-commerce platform, offline retail stores, or attending our events, they are all our valuable customers. We will have dedicated touch points to communicate with them and organise regular social and commercial activities with them both in digital format and physical interaction. The key focus is to create unique value with strong emotional bond to our consumers so the relationship is stronger and more sustainable, which will not easily diminish over time and change of shopping behaviour.

1 Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as the prior period.

Another focus area is the business customer management. Under the new market environment, we foresee more changes in our business partners. Our business partners' retail stores, or distributors both online and offline, will all have to adjust their strategies to meet the new market requirement. We need to closely monitor the market situation and work closely with them proactively to co-create success. We would provide more suitable products and services to better support their business development. We are open-minded to identify new business partners from the industry and also from the related industries targeting similar consumers, to increase cross-sell and generate synergies. We believe in the future only the collaboration could make us strong together. Therefore we will be sharing more information with them which will equip them with more market insights to capture more market opportunities. All these will be supported with dedicated function with a digital platform focusing on data analysis and market research.

The customer engagement is to be re-energised in part by our new corporate logo as exhibited on the cover of this annual report. The new logo aims to embrace the new generation of consumers, with widened age, gender and cultural appeal. It re-energies and modernises our corporate image. It is a cornerstone of our new brand platform, which embodies our new brand store image, curated product assortment and interactive instore experience together with the extended digital contents to provide seamless omni-channel shopping experience. Moreover, we will ride on the latest trend in setting up virtual shops in the Mainland which would help us further breakdown the limitation of physical space in serving our consumers. We are excited and looking forward to bringing such new image and customer journey to our consumers in the months to come, in both Mainland and Hong Kong. The re-imagined retail stores would not only serve as a platform for sales but a focal point to engage and excite the users and fans community.

Our strategic initiatives above would be supported by our continuous prudent financial management, with a laser focus on cashflow, inventory and profitability management. Under the new market dynamics, we believe it is more important to build quality than quantity. Quality growth can only be supported by positive cashflow, meticulous merchandise and inventory management, and adequate and preventive risk management. The COVID-19 outbreak exposes many unseen risk factors to all of us. There are important lessons we learn in the importance of channel and product diversification, key stakeholder relationship management, supply chain and logistics and many more that would also be integrated into our day-to-day management.

Our company is marching into our 20th anniversary in 2021. We have seen the ups and downs in the market. We have experienced the turbulence during SARS back in 2003. The experience and insight gained throughout our corporate history give us confidence and foresight that we can grow stronger and better, coming out of the current storm. All the pressure we sustain can only give us more motivation and focus to accelerate our change. As an old saying goes "transformation is slower than it looks, and faster than you think". We are cautiously optimistic about our transformation ahead!

Lee Ching Yiu
Chairman

Hong Kong, 31 March 2020

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lee Ching Yiu, aged 64, was appointed as Executive Director in 2017. He is also the Chairman and Chief Executive Officer. Earlier in 2019, Mr. Lee became a member of the Remuneration Committee. Mr. Lee is the founder of the Group and is primarily responsible for overall management, strategy and operations of the Group. Prior to establishing the Group, Mr. Lee worked in toy manufacturing and had gained 28 years of experience in the industry. Mr. Lee received his Bachelor of Arts degree from the University of Hong Kong in November 1979. He has been a director of the Tung Wah Group of Hospitals since April 2019.

Mr. Hung Shing Ming, aged 43, was appointed as Executive Director on 1 January 2019. Mr. Hung joined the Group as Assistant Chief Executive Officer and Chief Financial Officer on 11 September 2018. Mr. Hung is primarily responsible for the strategic development and corporate finance management of the Group.

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

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

Ms. Zhong Mei, aged 49, was appointed as Executive Director in 2017. She is the Managing Director of Kidsland China and oversees the operations of the Group in the Mainland, while also serving as a director for various Group subsidiaries. Prior to joining the Group in July 2001, Ms. Zhong was the sales and marketing director of Beijing Hong Kong Garland Trading Company Limited, a branded toys distributor, from March 1999 to June 2001, where she oversaw organizational development and sales and marketing operations of the firm's overseas business. From November 1993 to February 1999, Ms Zhong served as national business manager of the toys division of East Asiatic Company (China) Limited, a wholly-owned subsidiary of Santa Fe Group A/S, where she also oversaw organizational development and operations of the firm's overseas business. Ms. Zhong received her Bachelor's degree in English from the Civil Aviation University of China in July 1992 and Executive Master's degree in Business Administration from the China Europe International Business School in September 2005.

Non-executive Directors

Mr. Du Ping, aged 49, was appointed as Non-executive Director in 2017. He has been the financial controller of Lovable Holdings Limited since July 2005, overseeing financial reporting and management. Mr. Du received his Bachelor of Accounting degree from the Capital University of Economics and Business in July 1993, and his Master's degree in Business Administration from the National University of Singapore in August 2000. Mr. Du was admitted as a certified public accountant in China in November 1993 and recognised by the Ministry of Personnel and the Ministry of Finance as a Chinese Accountant in the Mainland in October 1994.

Ms. Duan Lanchun, aged 45, was appointed as Non-executive Director in 2017. Since October 2010, she has also been a managing partner at Cathay Capital Private Equity, where she is responsible for the management and operation of funds. From December 2003 to August 2008, Ms. Duan served as an associate director of the financial advisory department at Deloitte Touche Tohmatsu in Shanghai. She has been a director of Zbom Cabinets Company Limited (stock code: 603801), a company listed on the Shanghai Stock Exchange, since July 2017. She has also been a director of SINO-KOR Plastic & Aesthetic Hospital Holding Co., Ltd. (stock code: 430335), a company listed on the National Equities Exchange and Quotations (NEEQ), since June 2015. Ms. Duan received her Bachelor's degree in Economics, majoring in Accounting, from the Central University of Finance and Economics in July 1997 and her Master's degree in Business Administration from the China Europe International Business School in September 2010.

Independent Non-executive Directors

Mr. Cheng Yuk Wo, aged 59, was appointed as Independent Non-executive Director on 20 October 2017. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Mr. Cheng is currently the proprietor of Erik Cheng & Co., a certified public accountant practice in Hong Kong. Mr. Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics in August 1984 and a Bachelor of Arts degree in Accounting from the University of Kent in July 1983. He has been a fellow of the Institute of Chartered Accountants in England and Wales since August 1998, a fellow of the HKICPA since January 1999, and a fellow of the Institute of Chartered Professional Accountants of Canada since November 1990. Mr. Cheng has over 30 years of experience in financial and corporate advisory services in mergers, acquisitions, and investments. He worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London between 1984 and 1987 and Swiss Bank Corporation (now known as UBS AG) in Toronto between 1989 and 1992. He has held senior management positions in a number of Hong Kong listed companies. Mr. Cheng is Independent Non-executive Director of Chia Tai Enterprises International Limited (stock code: 3839), C.P. Pokphand Company Limited (stock code: 43), Chong Hing Bank Limited (stock code: 1111), CPMC Holdings Limited (stock code: 906), CSI Properties Limited (stock code: 497), DTXS Silk Road Investment Holdings Company Limited (stock code: 620), Goldbond Group Holdings Limited (stock code: 172), HKC (Holdings) Limited (stock code: 190), Liu Chong Hing Investment Limited (stock code: 194), Miricor Enterprises Holdings Limited (stock code: 1827), Somerley Capital Holdings Limited (stock code: 8439) and Top Spring International Holdings Limited (stock code: 3688).

Mr. Lester Garson Huang, aged 60, was appointed as Independent Non-executive Director on 20 October 2017. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Mr. Huang is a practicing solicitor and managing partner at P.C. Woo & Co., where he oversees its probate and trust administration practice and was appointed as co-chairman in January 2016. He became a qualified solicitor of Hong Kong in March 1985, a notary public in 1997, and Civil Celebrant of Marriages in 2006. Also a qualified solicitor of England and Wales since 1990, a solicitor and barrister in Australia since 1991 and in Singapore since 1995, Mr. Huang has acquired over 30 years of post-qualification experience as a solicitor. Mr. Huang graduated from the University of Hong Kong in 1982 with a Bachelor of Laws degree and in 1983 with a Postgraduate Certificate in Laws and graduated from the Chinese University of Hong Kong in 2006 with a Master of Education degree.

The Government of the HKSAR appointed Mr. Huang as a Justice of the Peace in 2002 and awarded him a Silver Bauhinia Star in 2018 for serving the public. He has been the chairman of Council of the City University of Hong Kong since January 2018. He is the chairman of the Standing Committee on Language Education and Research. He has also been the director of Faithful Servant Charitable Foundation Limited since August 2019.

Mr. Huang is Independent Non-executive Director at Guoco Group Limited (stock code: 53) and Lam Soon (Hong Kong) Limited (stock code: 411). Mr. Huang served as a member of the Hospital Authority from December 2012 to December 2018 and has been Non-executive Director of the Securities and Futures Commission since November 2015. He was the president of the Law Society of Hong Kong from 2007 to 2009 and has been a fellow of The Hong Kong Institute of Directors since January 2000.

Dr. Lam Lee G., aged 60, was appointed as Independent Non-executive Director on 20 October 2017. He is also the Chairman of the Nomination Committee and a member of the Audit Committee. Dr. Lam is the Chairman of Hong Kong Cyberport Management Company Limited, Non-executive Chairman, Hong Kong and ASEAN Region and Chief Adviser to Macquarie Infrastructure and Real Assets Asia. He is also a member of the Hong Kong Special Administrative Region Government's Committee on Innovation, Technology Re-Industrialization, and the Court of the City University of Hong Kong, Convenor of the Panel of Advisors on Building Management Disputes of the Hong Kong Special Administrative Region Government Home Affairs Department, president of the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP), Sustainable Business Network (ESBN) Executive Council and Chairman of its Task Force on Banking and Finance, Vice Chairman of Pacific Basin Economic Council (PBEC), a member of the Hong Kong Trade Development Council Belt and Road and Greater Bay Area Committee and a member of the Sir Murray MacLehose Trust Fund Investment Advisory Committee.

Dr. Lam is Independent Non-executive Director of Aurum Pacific (China) Group Limited (Stock Code: 8148), CSI Properties Limited (Stock Code: 497), Elife Holdings Limited (Stock Code: 223), Hang Pin Living Technology Company Limited (Stock Code: 1682), Haitong Securities Company Limited (Stock Code: 6837; 600837 on the Shanghai Stock Exchange), Hang Pin Living Technology Company Limited (Stock Code: 1682), Huarong Investment Stock Corporation Limited (Stock Code: 2277), Mingfa Group (International) Company Limited (Stock Code: 846) and Mei Ah Entertainment Group Limited (Stock Code: 391), Vongroup Limited (Stock Code: 318). He is Non-executive Director of China LNG Group Limited (Stock Code: 931), China Shandong Hi-Speed Financial Group Limited (Stock code: 412), National Arts Entertainment and Culture Group Limited (Stock Code: 8228), Sunwah Kingsway Capital Holdings Limited (Stock Code: 188), and Tianda Pharmaceuticals Limited (Stock Code: 455). Dr. Lam is also Independent Non-executive Director of the following listed companies on the Singapore Exchange: China Real Estate Group Limited (formerly Asia-Pacific Strategic Investments Limited, Stock code: 5RA), JCG Investment Holdings Ltd. (Stock code: VFP), Top Global Limited (Stock code: BHO) and Thomson Medical Group Limited (Stock Code: A50), and is Non-executive Director of Singapore eDevelopment Limited (Stock code: 40V). Dr. Lam is Independent Non-executive Director of Sunwah International Limited (Stock code: SWH), whose shares are listed on the Toronto Stock Exchange, Independent Non-executive Director of AustChina Holdings Limited (Stock code: AUH), whose shares are listed on the Australian Securities Exchange and TMC Life Sciences Berhad (Stock code: 0101), whose shares are listed on the Bursa Malaysia, and Non-executive Director of Adamas Finance Asia Limited (Stock code: ADAM), whose shares are listed on the London Securities Exchange.

Dr. Lam holds a BSc in Sciences and Mathematics, an MSc in Systems Science and an MBA from the University of Ottawa in Canada, an LLB (Hons) in law from Manchester Metropolitan University in the UK, a LLM in Law from the University of Wolverhampton in the UK, an MPA and a PhD from the University of Hong Kong. He is also a Solicitor of the High Court of Hong Kong (and formerly a member of the Hong Kong Bar), an Accredited Mediator of the Centre for Effective Dispute Resolution, a Fellow of Certified Management Accountants (CMA) Australia, the Institute of Public Accountants, the Institute of Financial Accountants, the Hong Kong Institute of Arbitrators, and the Hong Kong Institute of Directors, and an Honorary Fellow of Certified Public Accountants (CPA) Australia, the Hong Kong Institute of Facility Management, and the University of Hong Kong School of Professional and Continuing Education. In 2019, Dr. Lam was awarded by the Hong Kong Government a Bronze Bauhinia Star for serving the public.

SENIOR MANAGEMENT

Ms. Zhang Ying, aged 55, is the Group's national director overseeing sales and operations of national retail stores in the Mainland. Ms. Zhang is a director at Beijing Huizhilesi Commercial Company Limited. She is also overseeing the Group's LCS (LEGO Certified Store) business in the Mainland.

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

Mr. Yang Kewei, aged 52, is the Group's national director overseeing wholesale distribution in the Mainland. Prior to joining the Group in July 2001, Mr. Yang served as area manager from April 2000 to July 2001, overseeing Central China operations of Beijing Hong Kong Garland Trading Company Limited, a toys distributor. From May 1997 to February 1999, Mr. Yang served as an acting toy priority city manager at East Asiatic Company Marketing Services China, a wholly-owned subsidiary of Santa Fe Group A/S.

Ms. Zhang Weili, aged 56, is the Group's national director that oversees the sales and operation of consignment counters in department stores in the Mainland. Prior to joining the Group in July 2001, from June 1989 to July 1992, Ms. Zhang served as an assistant for the Director at Airland Mattress Company HK Limited (Shenzhen) (now known as Shenzhen Airland Furnture Limited), where she managed day-to-day operations of the director's office and various departments.

Ms. Cao Yuelin, aged 46, is the marketing manager of the Group, overseeing brand management and marketing strategies. From March 1995 to March 1999, Ms. Cao served as the sales supervisor of the toys department at East Asiatic Company, where she was primarily responsible for sales and marketing in Beijing.

Ms. Chang Rong, aged 51, is the group's Finance and IT Director in the Mainland. Prior to joining the Group in May 2004, from 1995 to 2000, Ms. Chang served as Regional Finance Manager at Jardine Logistics (China) Limited, supervising its finance team. In May 2001, Ms. Chang qualified as a Certified Public Accountant in China.

Mr. Chan Darren Chun-Yeung, aged 38, is the financial controller of the Group. He joined the Group in January 2019. He is responsible for day-to-day operations of finance, accounting, and company secretarial matters. Previously, Mr. Chan was Executive Director of Bar Pacific Group Holdings Limited (stock code: 8432). Mr. Chan was a finance manager at Milon Wine (Hong Kong) Company Limited, a subsidiary of Midea Group. From 2006 to 2013, Mr. Chan received training as a professional accountant at Deloitte Touche Tohmatsu. He is a practising member and Fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Ng Kwok Shek Marco, aged 44, is the Group's General Manager. He joined the Group in June 2016 and oversees its Hong Kong retail operations. From March 2013 to May 2016, Mr. Ng was a sales manager at Lane Crawford (Hong Kong) Limited, where he oversaw sales operations for menswear and womenswear. From October 2010 to February 2013, Mr. Ng was the operations director at the retailer Golfjunkie (China) Ltd. From July 2008 to September 2010, Mr. Ng served as an area manager at ImagineX Group, a premier retailer, where he was responsible for the Hong Kong and Southern China sales performance of Marc Jacobs and Marc. by Marc Jacobs.

RETAIL AND WHOLESALE BUSINESS

The Group's extensive distribution network comprises self-operated retail channels and wholesale channels. As of 31 December 2019, this network comprises:

Self-operated Retail Channels

– 744 self-operated retail points of sale consisting of retail shops and consignment counters (31 December 2018: 776)

– 20 online stores (31 December 2018: 22)

Wholesale Channels

– 697 distributors (31 December 2018: 931) who onsell the Group's products through third party retailers or at their own retail shops, the number of which amounts to over 2,100 (31 December 2018: over 3,000)

– 16 hypermarket and supermarket chains (31 December 2018: 16)

– 5 online key accounts (31 December 2018: 7)

Self-operated Retail Channels
Retail Shops
From 1 January 2019 to 31 December 2019 (the "Reporting Period"), the Group continued to optimise its store network.

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

	2019	2018
Retail shops		
At the beginning of the year	**257**	245
Addition of new retail shops	**22**	40
Closing of retail shops	**(40)**	(28)
At the end of the year	**239**	257

Consignment counters

Most of the Group's consignment counters were located at renowned department stores and a renowned regional toy store chain, and most of them operated under the brand name of Kidsland. During 2019, the Group continued to open new counters only at strategically selected locations. At the same time, the Group terminated some loss-making consignment counters.

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

	2019	2018
Consignment counters		
At the beginning of the year	519	535
Addition of new consignment counters	43	56
Closing of consignment counters	(57)	(72)
At the end of the year	505	519

Online stores

During 2019, the Group launched 2 and closed 4 flagship stores of brands that it represents on third-party-operated online platforms such as Tmall, JD.com, Xiaohongshu and Kaola. As of 31 December 2019, the Group had 20 online stores in total, compared with 22 in total in 31 December 2018.

Wholesale Channels

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

Distributors

As of 31 December 2019, the Group had 697 distributors (2018: 931), who onsell the Group's products at retail shops, which totaled to more than 2,100 (2018: 3,000) in the PRC, or through third party retailers. As market consolidates, the Group is now focusing on fewer but relatively larger distributors, hence improving efficiency and effectiveness.

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

	2019	2018
Distributors		
At the beginning of the year	**931**	962
Addition of new distributors	**155**	282
Expired without renewal of agreements with distributors	**(389)**	(313)
At the end of the year	**697**	931

Hypermarket and Supermarket Chains

As of 31 December 2019, the Group had wholesale arrangements with 16 hypermarket and supermarket chains (2018: 16) with a sum of 689 (2018: 689) retails points in Tier 1, 2 and 3 cities in the PRC (based on information provided by the hypermarket and supermarket chains).

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

	2019	2018
Hypermarket and supermarket chains		
At the beginning of the year	**16**	14
Addition of new hypermarket and supermarket chains	**–**	2
At the end of the year	**16**	16

Online Key Accounts

During 2019, the number of the Group's online key accounts has decreased to 5 (2018: 7).

	2019	2018
Online key accounts		
At the beginning of the year	**7**	13
Addition of new online key accounts	**–**	2
Termination or expiry of agreements with online key accounts	**(2)**	(8)
At the end of the year	**5**	7

FINANCIAL REVIEW

Revenue

For 2019, the revenue of the Group increased by 3.6% from approximately RMB1,650.1 million for 2018 to approximately RMB1,710.0 million for 2019.

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

	2019 RMB'000	2018 RMB'000
Self-operated retail channels		
– Retail stores	**656,550**	618,018
– Consignment counters	**474,918**	519,704
– Online stores	**91,167**	83,734
Sub-total:	**1,222,635**	1,221,456
Wholesale channels		
– Distributors	**378,927**	322,526
– Hypermarkets and supermarket chains	**25,324**	33,392
– Online key accounts	**83,155**	72,734
Sub-total:	**487,406**	428,652
Total:	**1,710,041**	1,650,108

Self-operated Retail Channels

The self-operated retail channels recorded an increase in revenue of 0.1% to RMB1,222.6 million in 2019. Revenue from the Group's online stores increased by 8.9% to approximately RMB91.2 million. The Group's retail stores revenue increased by 6.2% to approximately RMB656.6 million by increasing store productivity. The revenue from the Group's consignment counters, however, decreased by 8.6% to approximately RMB474.9 million.

Wholesale Channels

For 2019, the revenue contributed by wholesale channels increased by 13.7% from approximately RMB428.7 million for 2018 to approximately RMB487.4 million, representing 28.5% of total revenue in 2019 compared to 26.0% in prior year.

Despite the fact that the number of distributors has decreased from 931 in 2018 to 697 in 2019, the revenue from distributors has increased from approximately RMB322.5 million in 2018 to approximately RMB378.9 million in 2019. The increase is mainly due to the strong growth from certain category leading brands the Group carries.

The Group's online key accounts recorded revenue growth of approximately RMB10.4 million, representing a 14.3% increase from the prior year. Combining revenue from online key accounts and online stores, the Group's total revenue through e-commerce totaled approximately RMB174.3 million, or 10.2% of the total revenue in 2019 (2018: 9.5%).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 8.8% from approximately RMB947.8 million in 2018 to approximately RMB1,031.2 million in 2019. The increase was mainly due to an increase in revenue volume and a special inventory provision of RMB29.2 million. The Group's gross profit margin decreased from 42.6% in 2018 to 39.7% in 2019. As a result, gross profit decreased from approximately RMB702.4 million for 2018 to approximately RMB678.8 million for 2019.

Gross Profit Margin before Special Inventory Provision

Mainland

	2019 RMB'000	2018 RMB'000
Revenue	**1,579,954**	1,522,953
Cost of sales (excluding special inventory provision)	**(917,324)**	(870,710)
Adjusted Gross Profit[1]	**662,630**	652,243
Adjusted Gross Profit Margin[1]	**41.9%**	42.8%

1 Represents a non-HKFRS financial measure.

In the second half of 2019, the Group made a special inventory provision of approximately RMB29.2 million. It is a one-time special provision made for obsolete inventory arising from discontinued brands. For 2019, the gross profit margin before special inventory provision (the "adjusted gross profit margin") is 41.9% (2018: 42.8%) for Mainland market.

Other Income

Other income, consisting mainly of government grants increased by approximately RMB8.3 million from approximately RMB6.3 million in 2018 to approximately RMB14.6 million in 2019.

Other losses, net

Other losses, net increased by approximately RMB16.3 million from approximately RMB11.8 million for 2018 to a loss of approximately RMB28.1 million for 2019. Other losses, net is mainly attributable to the net exchange loss. The increase in 2019, however, is mainly due to fair value loss on financial asset at fair value through profit or loss of approximately RMB16.5 million. The fair value loss is on the Group's investment in 1.5% interest in equity of an unlisted company incorporated in Mainland.

Impairment loss/reversal of impairment loss on Financial Assets

The amount represent the provision made for or reversal of impairment loss on trade receivables. Provision for impairment loss on trade receivables were made for approximately RMB3.9 million in 2019 compare to reversal of impairment loss on trade receivables for approximately RMB3.1 million in 2018.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 2.1% from approximately RMB671.7 million for 2018 to approximately RMB657.4 million for 2019. The decrease is mainly due to reduction on advertising and promotion cost and the adoption of HKFRS 16 "Leases" which render part of the rental expense to be accounted for as finance costs in 2019.

General and Administrative Expenses

General and administrative expenses decreased by 24.3% from approximately RMB107.7 million in 2018 to approximately RMB81.6 million in 2019. The decrease is mainly due to reduction in share based payment, staff cost, legal and professional fees, better cost control on other sundry expenses and the adoption of HKFRS 16 "Leases" which render part of the rental expense to be accounted for as finance costs in 2019.

Finance Costs

For 2019, the Group's finance costs was approximately RMB13.8 million. Such increase was mainly due to adoption of HKFRS 16 "Leases" and the interest expenses arising from the lease liabilities of approximately RMB13.4 million.

Loss for the Year

A loss of approximately RMB79.5 million was recorded for 2019 (2018: RMB84.6 million).

Adjusted EBITDA[1, 3]

Adjusted EBITDA for 2019, was approximately RMB17.7 million, improving from an adjusted EBITDA loss of approximately RMB3.8 million for 2018.

Adjusted Loss for the Year[2, 3]

Adjusted loss for the year decreased from approximately RMB47.5 million in 2018 to approximately RMB20.5 million in 2019.

Non-HKFRS Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain non-HKFRS financial measures, including adjusted gross profit, adjusted gross profit margin, adjusted EBITDA, adjusted loss for the year and adjusted loss margin, have been presented in this report. The Company's management believes that the non-HKFRS financial measures provide investors with clearer view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations by excluding certain impact of certain non-cash items (such as share based payment and net exchange loss), one-time special provision made for obsolete inventory arising from discontinued brands and fair value loss on financial asset at fair value through profit or loss. Nevertheless, the use of these non-HKFRS financial measures has limitations as an analytical tool. These unaudited non-HKFRS financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

Cash Conversion Cycle

Trade receivables turnover days decreased from 33 days in 2018 to 30 days in 2019. Trade payables turnover days decreased from 94 days in 2018 to 79 days in 2019. The inventory turnover days of the Group decreased from 203 days in 2018 to 197 days in 2019.

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

The cash conversion cycle increased from 142 days in 2018 to 148 days in 2019.

Capital Expenditure

During the year, the Group invested approximately RMB43.1 million (2018: approximately RMB49.5 million) in property, plant and equipment mainly to renovate existing shops and set up new shops.

[1] Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as the prior period.

[2] Adjusted (Loss)/Profit means (Loss)/Profit for the period, adjusted for share based payment, net exchange loss, special inventory provision (net of tax effect) and fair value loss on financial asset at fair value through profit or loss.

[3] Represents a non-HKFRS financial measure.

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2019 were approximately RMB36.2 million compared to approximately RMB112.2 million as at 31 December 2018. The current ratio and quick ratio as at 31 December 2019 were 1.9 and 0.9 respectively (31 December 2018: 2.9 and 1.2 respectively).

As at 31 December 2019, the Group had aggregate banking facilities of approximately RMB118.0 million (31 December 2018: approximately RMB110.1 million) for bank loans and trade financing, of which approximately RMB81.5 million (31 December 2018: approximately RMB86.5 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

The Group had a loan facility from a related company of approximately RMB35.8 million (2018: Nil) of which approximately RMB13.7 million was utilised as at 31 December 2019 (2018: Nil).

Gearing Ratio

The table below analyses the Group's capital structure as at 31 December 2019:

	2019 RMB'000	2018 RMB'000
Bank balances and cash	**30,685**	112,246
Restricted cash	**5,500**	–
Loan from a related company	**(13,695)**	–
Lease liabilities	**(192,647)**	–
Net (debt)/cash position	**(170,157)**	112,246
Total equity	**632,277**	700,543
Total capital	**462,120**	812,789

The Group was in a net debt position of RMB170,157,000 as at 31 December 2019 (2018: net cash position of RMB112,246,000). The Group's gearing ratio, as calculated by dividing the Group's net debt by the Group's total equity, as at 31 December 2019 is approximately 27% (2018: Nil).

The net debt to equity ratio increased from nil to 27% following the adoption of HKFRS 16 "Leases". Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019.

Charge of Assets

As at 31 December 2019, no charges have been made on the Group's assets (31 December 2018: Nil).

Contingent Liabilities

As at 31 December 2019, the Group did not have significant contingent liabilities (31 December 2018: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the US Dollar, Euro, Japanese Yen and Hong Kong Dollar against the Chinese Renminbi. Although the Group's management personnel monitors the Group's foreign exchange risks regularly, exchange rate fluctuations could affect the Group's margins and profitability. Since 1 January 2019, the Group has adopted Renminbi as its presentation currency to reduce the impact of fluctuations of the exchange rate between Renminbi and Hong Kong Dollars on the presentation of the Group's consolidated financial statements.

Significant Investment Held, Material Acquisition and Disposal

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

REPORT OF THE BOARD OF DIRECTORS

The Directors are pleased to present the Group's annual report and audited Consolidated Financial Statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND PERFORMANCE ANALYSIS

The principal activity of the Company is investment holding. Its subsidiaries are engaged in toy retailing in Hong Kong and toy and infant product retailing and wholesaling in the PRC. Activities of the Company's principal subsidiaries are set out in note 16 of the Consolidated Financial Statements.

Note 5 of the Consolidated Financial Statements contains a performance analysis of the Group's revenue channels (e.g. retail, wholesale) and geographical segments.

BUSINESS REVIEW AND PROSPECT

Refer to the Chairman's Statement on pages 3 to 4 and the section Management Discussion and Analysis on pages 9 to 15 for key financial performance indicators for the year ended 31 December 2019.

The financial risk management objectives and policies of the Group is set out in note 3 of the Consolidated Financial Statements.

The Company commits to cultivating ethical conduct and complying with all prevailing laws and regulations. There were no material non-compliance cases or breaches of legislation in 2019.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, China and Hong Kong have reported numerous confirmed cases of Coronavirus Disease 2019 ("COVID-19") which affected the usual business environment of the regions the Group operates as a whole. A series of precautionary and control measures have been and continued to be implemented across the Mainland, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, implementation of heightened hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing.

In light of the negative impact brought by COVID-19 outbreak, the Group is in active negotiation with its landlord on possible rent concession for its leased retail stores. Certain landlords have offered different extents of rent concession, including rent-free periods or long-term rent reductions. In addition, the Group is in the process of considering to adjust its overall business strategy, including product mix, geographical mix, etc. Such effect could affect the Group's financial performance in the year ending 31 December 2020 and beyond, depending on the form of rent concession.

Further, in preparing this set of consolidated financial statements, the Group determined the recoverable amount of its cash-generating units based on the present value of future cash flows under the conditions as of 31 December 2019. In the impairment testing to be performed for the year ending 31 December 2020, COVID-19 outbreak and its impact on the present value of estimated future cash flows of the cash-generating units will need to be considered. The outbreak of COVID-19 could also affect the subsequent sales return and subsequent settlement of trade receivables.

Pending development of this non-adjusting subsequent event, the Group's financial results may be affected, the extent of which could not be estimated as of the date of this report.

RESULTS

The Group's 2019 results are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 48.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

DIVIDEND POLICY

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

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

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

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

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

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

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

(d) the Group's liquidity position;

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

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

(g) other factors that the Board considers relevant.

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

ANNUAL GENERAL MEETING

The Company's annual general meeting shall be held on Wednesday, 10 June 2020 (the "2020 AGM"). A notice convening the 2020 AGM, along with other relevant documents, will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2020 AGM

The Company will close its Register of Members from Friday, 5 June 2020 until Wednesday, 10 June 2020 to count and fix the number of attendees and voters that shall be present at the 2020 AGM. New shareholders that wish to attend and vote at the 2020 AGM should, therefore, register their share transfer(s) and provide their share certificates before 4:30 p.m. on Thursday, 4 June 2020 to the Company's branch share register, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group is always committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. A report on the environmental, social and governance aspects has been prepared with reference to the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules and will be available on the Company's website a few months after the publication of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 120.

SHARE CAPITAL

Changes in the Company's share capital during the year are set out in note 28 of the Consolidated Financial Statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

RESERVES

Details of the changes in the Group's reserves in 2019 are set out in the Consolidated Statement of Changes in Equity of the Consolidated Financial Statements.

As at 31 December 2019, the Company's reserves available for distribution to shareholders amounted to approximately RMB312.2 million (2018: RMB328.7 million).

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

Executive Directors:

Mr. Lee Ching Yiu *(Chairman and Chief Executive Officer)*
Mr. Hung Shing Ming (appointed on 1 January 2019)
Ms. Zhong Mei

Non-executive Directors:

Mr. Du Ping
Ms. Duan Lanchun

Independent Non-executive Directors:

Mr. Cheng Yuk Wo
Mr. Huang Lester Garson
Dr. Lam Lee G.

In accordance with Article 84 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Given that all directors must rotate at least once every three years, Ms. Duan Lanchun, Mr. Cheng Yuk Wo and Mr. Huang Lester Garson will retire as well as offer themselves for re-election at the 2020 AGM.

The Company offered all Executive Directors three-year service agreements whose termination requires written notice at least three months in advance. Each of the Non-executive Directors and Independent Non-executive Directors has signed a letter of appointment with the Company for a term of three years, which is terminable by not less than three months' notice in writing.

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

Biographical information of the Directors and the senior management personnel of the Group are set out on pages 5 to 8.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors have been independent from their respective date of appointment to 31 December 2019 and remain independent as of the date of this annual report.

DIRECTORS' SHAREHOLDINGS

As at 31 December 2019, the interests and short positions of the Directors and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Long positions

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Lee Ching Yiu	Beneficial owner	14,000,000	1.75%
	Held by controlled corporation(2)	425,224,523	53.15%
Mr. Hung Shing Ming	Beneficial owner	24,100,000	3.01%
Ms. Zhong Mei	Beneficial owner(1)	4,000,000	0.50%
	Held by controlled corporation(3)	29,999,100	3.75%
Mr. Du Ping	Beneficial owner	1,500,000	0.19%
	Held by controlled corporation(4)	2,999,910	0.37%

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

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

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

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

As at 31 December 2019, the Company had 800,000,000 Shares in issue. Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2019, none of the Directors or chief executive of the Company had or was deemed to have any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules.

SHARE OPTION SCHEMES

The Post-IPO Share Option Scheme

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

The options granted pursuant to the Post-IPO Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this annual report, the Post-IPO Share Option Scheme had a remaining life of more than 7 years.

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

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

The aggregate total of underlying Company shares of options granted, whether through the Post-IPO Share Option Scheme or other means, must never exceed 10% of the total number of issued Company shares unless Company shareholders approve otherwise. As at 31 December 2019, the total number of shares available for issue under the Post-IPO Share Option Scheme was 41,800,000 shares, which represented 5.22% of the shares in issue as at the date of this annual report.

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

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

No share option was granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme since its adoption and up to 31 December 2019. No share option was outstanding under the Post-IPO Share Option Scheme as at 31 December 2019.

The Pre-IPO Share Option Scheme

On 20 October 2017, the Pre-IPO Share Option Scheme was adopted, through a written resolution passed by the Company's shareholders, to motivate, retain, and reward eligible full-time key employees, consultants, and Directors of the Company or any of its subsidiaries (the "Pre-IPO Eligible Participants"). As at the date of this annual report, the Pre-IPO Share Option Scheme had a remaining life of more than 7 years.

Movements of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2019 were as follows:

	Outstanding at the beginning of the year	Exercised during the year	Lapsed or cancelled during the year	Granted during the year	Outstanding at the end of the year
Directors					
Mr. Lee Ching Yiu	4,000,000	–	–	–	4,000,000
Ms. Zhong Mei	4,000,000	–	–	–	4,000,000
Mr. Du Ping	1,500,000	–	–	–	1,500,000
Employees	31,900,000	–	3,200,000	–	28,700,000
Total	41,400,000	–	3,200,000	–	38,200,000

On this scheme's inception date, 47,500,000 share options, each with an exercise price of HK$0.8 per share, were granted to eligible company directors and employees. For the year ended 31 December 2019, options comprising 3,200,000 underlying Shares (2018: 6,300,000 Underlying Shares) granted under the Pre-IPO Share Option Scheme lapsed during the year, and the corresponding share option reserves of RMB881,000 were reclassified as retained earnings (2018: RMB1,676,000). As at 31 December 2019, the total number of shares available for issue under the Pre-IPO Share Option Scheme was 38,200,000 shares, which represented 4.78% of the shares in issue as at the date of this annual report.

The Company used the following estimates to determine the binomial tree model's parameters used for predicting the fair value of options granted in 2017. These estimates also affected the amount of such equity awards expected to vest and ultimately the calculation of share-based payments. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share-based payments.

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

Save as disclosed above, except for the options which have been granted under the Pre-IPO Share Option Scheme, no share options have been granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme since its adoption and up to 31 December 2019.

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

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

Once the scheme is terminated at a general meeting by the Board or the shareholders in accordance with the terms of the scheme, no additional share options will be offered under the Pre-IPO Option Scheme. The terms of the scheme, however, shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior thereto or otherwise as may be required in accordance with the terms of the Pre-IPO Share Option Scheme.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS, AND CONTRACTS OF SIGNIFICANCE

Other than the transactions disclosed in note 35 of the Consolidated Financial Statements and in the "Connected Transactions" section on page 25 to 27, there were no other transactions, arrangements and contracts of significance, to which the Company's holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or a connected entity of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2019, so far as are known to the Board, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long positions

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding
Ms. Tang Hoi Lun	Interest of spouse(1)	439,224,523	54.90%
Asian Glory	Beneficial owner	425,206,524	53.15%
	Held by controlled corporation(2)	17,999	0.00%
FCPR Cathay Capital II	Held by controlled corporation(3)	78,777,637	9.85%
Eurojoy Limited	Beneficial owner	78,777,637	9.85%

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

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

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

Save as disclosed above, as at 31 December 2019, the Directors are not aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Continuing connected transactions which are fully exempt from shareholders' approval, annual review and all disclosure requirements

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

On 1 January 2019, Shanghai Haisile entered into a lease agreement (the "PRC Lease Agreement") with Land Smart Development Limited ("Land Smart"), who agreed to lease the premises situated on 21/F, No. 2067 Yanan West Road, Changning District, Shanghai, the PRC (中國上海市長寧區延安西路2067號21層) with a gross floor area ("GFA") of approximately 1,160 sq.m. (the "PRC Premises") to Shanghai Haisile for office use from 1 January 2019 to 31 December 2019 (both days inclusive). The total rent for the 12-month term ended 31 December 2019 was approximately RMB1.44 million (exclusive of utilities and management fees). The lease agreement has been renewed on 1 January 2020.

Land Smart is wholly-owned by Asian Glory, one of the controlling shareholders of the Company, and it is therefore a connected person of the Company. As each of the applicable percentage ratios for the lease agreement is less than 5.0% and the total annual consideration is less than HK$3 million, the transaction contemplated thereunder is fully exempt from the reporting, annual review, announcement, and independent shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

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

On 1 July 2019, Kidsland Holdings Limited entered into a lease agreement (the "HK Lease Agreement") with Politor Limited, who agreed to lease the premises situated on 28/F, Times Tower, Nos. 391–407 Jaffe Road, Hong Kong with a GFA of approximately 142 sq.m. (the "HK Premises") to Kidsland Holdings Limited for office use from 1 July 2019 to 30 June 2020 (both days inclusive) at a monthly rent of HK$55,000 (inclusive of the government rates, rent and management fees). As a result, the total rent for each 12-month term is HK$660,000.

Politor Limited is wholly-owned by Asian Glory and Mr. Lee Ching Yiu, the controlling shareholders of the Company, and it is therefore a connected person of the Company. As each of the applicable percentage ratios for the lease agreement is less than 5.0% and the total annual consideration is less than HK$3 million, the transaction contemplated thereunder is fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

1C. *Loan from a director by Kidsland HK Limited*

On 27 August 2019, Kidsland HK Limited entered into a loan agreement (the "Loan Agreement") with Lovable Products Trading Limited, who agreed to provide a loan facility of approximately RMB35.8 million (2018: Nil) of which approximately RMB13.7 million was utilised as at 31 December 2019 (2018: Nil).

Lovable Products Trading Limited is wholly-owned by Mr. Lee Ching Yiu, the controlling shareholder of the Company, and it is therefore a connected person of the Company. As the aforesaid connected transaction was conducted on normal commercial terms or better and it was not secured by the assets of the Group, it is fully exempt from shareholder's approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

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

2. *Silverlit Exclusive Distribution Agreement with Dongguan Silverlit Toys Co., Ltd. ("Dongguan Silverlit")*

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

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

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

For the year ended 31 December 2019, the purchases by the Group from Dongguan Silverlit (and its associated companies) amounted to approximately RMB20.9 million (2018: RMB41.9 million). Prices for the Distribution Toys to be supplied pursuant to the Silverlit Exclusive Distribution Agreement were determined according to ex-factory prices (inclusive of 17% VAT). For the year ended 31 December 2019, no fees were paid by the Group to Dongguan Silverlit for the use of the Licenced Trademarks.

The annual transaction targets pursuant to the Silverlit Exclusive Distribution Agreement are as follows: RMB74 million for the year ended 31 December 2017, RMB94 million for the year ended 31 December 2018, and RMB113 million for the year ending 31 December 2019. In the event that the actual amount of purchase of the Distribution Toys by the Silverkids Group in any year is lower than 80% of the sales target, Dongguan Silverlit shall have the right to terminate the Silverlit Exclusive Distribution Agreement, and Silverkids Group shall have a non-exclusive right to sell its existing inventory of the Distribution Toys in the PRC within six months from the termination date (the "Sell-Off Period").

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

Dongguan Silverlit is indirectly owned as to 31% by Mr. Choi Kei Fung, a director of Silverkids Inc., a non-wholly owned subsidiary of the Company, and 69% by his associates. As such, Dongguan Silverlit is a connected person at the subsidiary level of the Company under the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, given that the Directors including the independent non-executive Directors had approved the transactions contemplated under the Silverlit Exclusive Distribution Agreement and considered that the transactions were conducted on normal commercial terms and were fair and reasonable and in the interests of the Company and shareholders as a whole and were in the ordinary and usual course of the Company's business, and they were also of the view that the proposed annual caps of the continuing connected transactions above were fair and reasonable and in the interests of shareholders as a whole, the transactions contemplated under the Silverlit Exclusive Distribution Agreement are subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and independent shareholders' approval requirements under the Listing Rules.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with two publications by the Hong Kong Institute of Certified Public Accountants: the "Hong Kong Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and "Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The Board has received an unqualified letter from the auditors of the Company in accordance with Rule 14A.56 of the Listing Rules containing their findings and conclusion on the above continuing connected transactions of the Group, stating that the auditors did not notice anything that causes them to believe that any of these continuing connected transactions (a) had not been approved by the Board; (b) were not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and (c) exceeded the relevant annual caps for the financial year ended 31 December 2019. The Company has provided a copy of the auditor's letter to the Stock Exchange.

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

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

As at the date of this annual report, the Silverlit Exclusive Distribution Agreement has expired and the transactions contemplated thereunder had ceased since its expiry on 31 December 2019 and the Company has no intention to renew it.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed above, during the year ended 31 December 2019, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the date of this annual report, none of the Directors or their close associates had interests in businesses which compete or are likely to compete with the Group's businesses in any way required to be disclosed under the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Mr. Lee Ching Yiu and Asian Glory (the "Covenantors"), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company on 25 October 2017, pursuant to which each of the Covenantors has unconditionally and irrevocably undertaken to the Group that he/it will not, and will procure his/its close associates (other than members of the Group) not to directly or indirectly participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business (other than the business of the Group) that directly or indirectly competes, or may compete, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Company's prospectus dated 31 October 2017 (the "Prospectus").

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The Independent Non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2019.

SIGNIFICANT RELATED PARTY TRANSACTIONS

The continuing connected transactions disclosed above also constitute related party transactions under the Hong Kong Financial Reporting Standards. Note 35 of the Consolidated Financial Statements contains a summary of significant related party transactions made during the year.

The Group's related parties transactions marked with "#" for the year ended 31 December 2019 set out in note 35 to the Consolidated Financial Statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 10 November 2017, the Company, in connection with its initial public offering (the "IPO"), issued 200,000,000 ordinary shares with HK$0.01 nominal values. Net proceeds after deducting underwriting commission and other IPO expenses amounted to approximately HK$288.3 million.

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

An analysis of the utilisation of the net proceeds from the Listing Date up to 31 December 2019 is set out below:

	Use of proceeds as stated in the Prospectus (amount adjusted per final offer price) HK$ million	Actual use of proceeds as at 31 December 2019 HK$ million	Unused proceeds as at 31 December 2019 HK$ million	Further information
Expand the Group's retail network in the Mainland and Hong Kong				
– Opening flagship toy stores in the Mainland	60.5	60.5	–	A new flagship store in Beijing was under development and renovation since August 2018 and opened in May 2019. The full amount has been utilised as intended.
– Opening Kidsland and Babyland stores in the Mainland	46.1	46.1	–	22 new stores were opened in 2019. The full amount has been utilised as intended.
– Opening LEGO Certified Stores in the Mainland and Hong Kong	34.6	34.6	–	5 LCS stores opened in the Mainland in 2019. The full amount has been utilised as intended.
– Upgrading the information technology system, developing e-commerce business, upgrading store image, visual display, and paying for other marketing expenses at the retail points	34.6	34.6	–	The full amount has been utilised as intended.
Strengthen the Group's product development capabilities	51.9	51.9	–	The Group purchased a brand name and invested in other product development areas in 2018. The full amount has been utilised as intended.
Develop experience centres and associated products	31.7	18.2	13.5	The first experience centre was opened in 2018. The second experience centre, operated as a franchise store, is planned to open in 2020. The opening date may be affected by COVID-19.
Working capital and other general corporate purpose	28.9	28.9	–	The full amount has been utilised as intended.
	288.3	274.8	13.5	

As of the date of this annual report, the amount of proceeds not yet utilised is approximately HK$13.5 million. The Company has used and/or intends to use unused proceeds in the same manner as disclosed in the Prospectus.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 2,100 employees (including both self-employed and outsourced employees) (2018: approximately 2,300 employees) in the PRC and Hong Kong. Total remuneration for self-employed and outsourced employees for the year ended 31 December 2019 amounted to approximately RMB118.3 million and RMB126.6 million respectively (2018: approximately RMB147.9 million and RMB116.5 million respectively). The Group's remuneration packages comply with legislation in relevant jurisdictions and were decided based on market conditions and employees' levels of experience and qualifications; bonuses were awarded based on employee performance and the Group's financials. The Company has adopted two share option schemes on 20 October 2017 (the "Share Option Schemes"). Details of the Share Option Schemes are set out in the "Report of the Board of Directors" on page 22 to 23. As in previous years, the Group has ensured adequate training and professional development opportunities to employees.

PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED AGREEMENT

Apart from the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the Company has not entered into any equity-linked agreement during the year ended 31 December 2019 or there was not any subsisting equity-linked agreement entered into by the Company at the end of the year ended 31 December 2019.

TAX RELIEF

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

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 were audited by PricewaterhouseCoopers. A resolution will be submitted to the annual general meeting to re-appoint PricewaterhouseCoopers as auditor of the Company.

Change of the auditor for the past three years

The Company appointed Deloitte Touche Tohmatsu as the auditor of the Company in 2017 and 2018. Deloitte Touche Tohmatsu retired as the auditor of the Company with effect from the conclusion of the annual general meeting held on 31 May 2018 and the Company currently appoints PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Mr. Lee Ching Yiu, *Chairman*
31 March 2020

CORPORATE GOVERNANCE REPORT

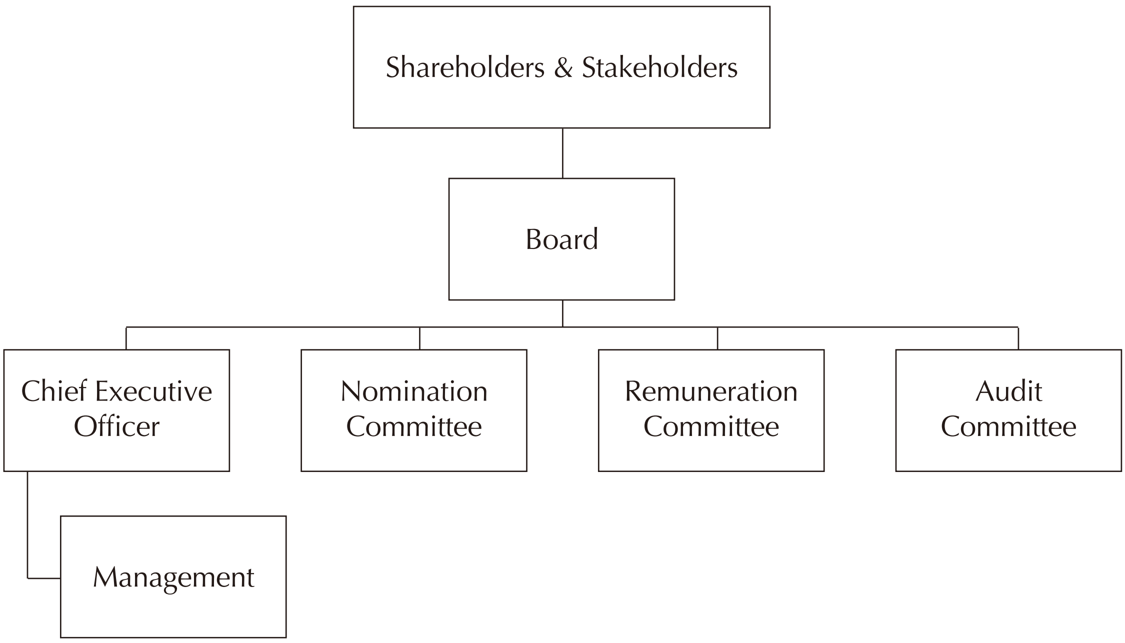
The Board is pleased to present this corporate governance report in the annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and applied the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance. To the best knowledge of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the year ended 31 December 2019 except for the deviation as stated below:

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

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



MODEL CODE SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the guidelines for the Directors' dealings in the securities of the Company. Following specific enquiries to each of the Directors, all the Directors have confirmed their compliance with the required standards set out in the Model Code throughout the year ended 31 December 2019.

LEADERSHIP

Board of Directors

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

Board Composition

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

Executive Directors
Mr. Lee Ching Yiu *(Chairman and CEO)*
Mr. Hung Shing Ming (appointed on 1 January 2019)
Ms. Zhong Mei

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

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

To the best knowledge of the Company, none of the Board members have financial, business, family or other material/relevant relationships with each other. The composition of the Board reflects the balanced skills and experience required for effective leadership. The biographical details of Directors are set out on pages 5 to 8 under the section headed "Directors and Senior Management".

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

Since the Listing Date, the Board at all times has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

All Directors have brought in precious and valuable business perspectives, experience and knowledge to the Board for its efficient and effective functioning. They are all provided with full and timely access to information of the Company as well as access to contact and services of the joint company secretaries and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Code provision A.6.5 of the CG Code provides that all board directors should participate in continuous professional development to ensure that their contributions remain informed and relevant.

All of the Directors provided to the Company records of training that they received for the year ended 31 December 2019 by reading materials relating to the discharge of their duties and responsibilities and regulatory updates.

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

Name of Directors	Type of Trainings
Mr. Lee Ching Yiu	A, B
Mr. Hung Shing Ming	A, B
Ms. Zhong Mei	A, B
Mr. Du Ping	A, B
Ms. Duan Lanchun	A, B
Mr. Cheng Yuk Wo	A, B
Mr. Huang Lester Garson	A, B
Dr. Lam Lee G.	A, B

A: attending seminars/briefings/conference/forms and workshop

B: rending newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities.

DIRECTOR APPOINTMENT AND RE-ELECTION

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

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

The appointment of all Directors is subject to the provisions of retirement and rotation of Directors under the Company's articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting. The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association.

COMPANY SECRETARY

Mr. Chan Chun Yeung Darren is the company secretary of the Company. His biographical details are set out in the "Directors and Senior Management" section on page 8. In accordance with Rule 3.29 of the Listing Rules, he has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2019.

BOARD COMMITTEES

Three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, are established for the roles of overseeing particular aspects of the Group under defined terms of reference. The terms of reference align with the CG Code and are made available on the websites of the Company and the Stock Exchange. A list of the Chairman and members of each Board Committee is set out under "Corporate Information" on page 2.

AUDIT COMMITTEE

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

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

In 2019, the Audit Committee held three meetings with 100% attendance during which the Audit Committee reviewed and discussed the audit annual results for the year ended 31 December 2018 with the senior management of the Company and external auditor, reviewed and discussed the unaudited interim results for the six months ended 30 June 2019 with the senior management of the Company and external auditor, assessed the independence of the Company's auditors, reviewed the appointment of external auditors, had meetings with external auditors, reviewed the accounting policies adopted by the Group, and reviewed the internal controls, financial control, risk management systems and effectiveness of internal audit function of the Group. A subsequent meeting on 27 March 2020 allowed the Audit Committee to review the Group's internal control, financial control, risk management systems and effectiveness of internal audit function of the Group, and annual financial statements for the year ended 31 December 2019, which the Audit Committee believed to be compliant with accounting standards, the Listing Rules, and other legal requirements.

During the year ended 31 December 2019, the Audit Committee and the Board conducted a review of the effectiveness of the risk management and internal control system of the Company, respectively including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Company's accounting and financial reporting function. The Board considers that there are no significant defects in the Company's risk management and internal control system in terms of completeness, reasonableness and effectiveness and considers the Company's internal audit and internal control system to be effective and sufficient.

The Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee in 2019.

NOMINATION COMMITTEE

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

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

During the year ended 31 December 2019, the Nomination Committee convened one meeting with 100% attendance, where it assessed (i) the independence of INEDs, (ii) the re-appointment of retired Directors, (iii) the structure and composition of the Board; and (iv) the nomination policy for Directors. The Nomination Committee also discussed matters such as nomination procedure of director candidates by shareholders and Director's rotations and succession planning. Attendance record of meetings during the year is set out on page 39.

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

(a) character and integrity;

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

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

During the year, the Remuneration Committee consists of two Independent Non-executive Directors, namely Mr. Huang Lester Garson (as committee chairman) and Mr. Cheng Yuk Wo, as well as an Executive Director, Mr. Lee Ching Yiu.

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

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

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

During the year ended 31 December 2019, the Remuneration Committee conveneed one meeting, with 100% attendance to review the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management, assess the performance of executive directors and other related matters.

For the year under review, the remuneration of Directors was determined by their experience, responsibility, workload, and time devoted to the Group. Executive Directors and employees were awarded bonuses according to the performance of the Group and their individual performance. Details of the Directors' remuneration are set out in note 11 of the consolidated financial statement.

The Company adopted two share option schemes on 20 October 2017 (the "Share Option Schemes"). The purpose of the Share Option Schemes was to enable the Group to grant options as incentives or rewards to eligible participants for their contribution to the Group. Details of the Share Option Schemes are set out in the "Report of the Board of Directors" on page 22 to 23. The emolument payable to Directors and senior management will depend on the contractual terms stated in their service agreements or appointment letters and is fixed by the Board, taking into account (i) the Remuneration Committee's recommendations, (ii) the Group's performance, and (iii) prevailing market conditions.

The remuneration of the Directors and senior management of the Company for the year ended 31 December 2019 was as follows:

Remuneration Band	Number of individuals
Less than HK$1,000,000 (equivalent to approximately RMB880,500)	5
HK$1,000,001 to HK$1,500,000 (equivalent to approximately RMB880,501 – RMB1,320,750)	6
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,320,751 – RMB1,761,000)	2
HK$2,500,001 to HK$3,000,000 (equivalent to approximately RMB2,201,251 – RMB2,641,500)	1
HK$8,500,001 to HK$9,000,000 (equivalent to approximately RMB7,484,251 – RMB7,924,500)	1

Details of the remuneration of Directors and senior management are set out in notes 10 and 11 of the consolidated financial statements.

Board Diversity Policy

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

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

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

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

Board Meetings

During the year ended 31 December 2019, at least 14 days' notice for all regular Board meetings has been given to all Directors and all Directors has been given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice has been given. During regular board meetings, the Board reviewed the Group's operation and financial performance and reviewed and approved annual and interim results.

During the financial year ended 31 December 2019, the Board held four meetings. Since being listed on the Stock Exchange, the Company has adopted the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals to discuss overall strategy as well as operations and financial performance of the Group. Up to the date of this annual report for the financial year ended 31 December 2019, one board meeting was held on 27 March 2019. All Directors were given opportunities to include any matters in the agenda for regular board meetings and review documents and information about matters to be discussed at board meetings.

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

General Meetings

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

Attendance Records

Name	Attendance/Number of Meetings for the financial year ended 31 December 2019				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Mr. Lee Ching Yiu	4/4	–	–	1/1	1/1
Mr. Hung Shing Ming	4/4	–	–	–	1/1
Ms. Zhong Mei	4/4	–	–	–	1/1
Mr. Du Ping	4/4	–	–	–	1/1
Ms. Duan Lanchun	4/4	–	–	–	1/1
Mr. Cheng Yuk Wo	4/4	3/3	1/1	1/1	1/1
Mr. Huang Lester Garson	4/4	3/3	1/1	1/1	1/1
Dr. Lam Lee G.	4/4	3/3	1/1	–	1/1

AUDITORS' REMUNERATION

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

Services rendered	Fee paid/payable RMB'000
Audit services	2,245

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2019, the Board has adopted suitable accounting policies, made prudent and fair judgments and estimates, and prepared the accounts under the assumption that the Company will continue operating for the foreseeable future. Nothing has compelled the Directors to assume otherwise.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 43 to 119.

Internal Control and Risk Management

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

The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee regularly reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. It also assists the Board in fulfilling its corporate governance roles in the Group's risk management and internal controls and internal audit functions.

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

The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate in areas including adequacy of resources, staff qualifications and experience, training programmes, and budget for accounting, internal audit, and financial reporting functions.

The Company has adopted corporate governance policies to ensure compliance with the Listing Rules and improve the effectiveness of its risk management and internal control systems.

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

The Company engaged an external advisory firm to conduct a review on the Group's internal control environment for the year ended 31 December 2019 and help the Group adopt and implement enterprise risk management systems. Based on the findings and recommendations of the external advisory firm and confirmation of the management as well as the recommendation of the Audit Committee, the Board considered the risk management and internal control systems to be effective and adequate with no significant areas of concern. The review covered adequacy of resources, training programmes, qualifications and experience of staff, the Group's budget, accounting and financial reporting functions, and internal control. The Board will continue to work with management personnel to fix any internal control weaknesses and monitor the risks of the Group in the coming years.

Procedures and Internal Controls for the Handling and Disseminating Inside Information

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

- Access of information is restricted to a limited number of employees on a need-to-know basis.

- Employees knowing or possessing inside information know that they need to keep it confidential.

- All employees are required to strictly adhere to the employment terms about handling confidential information.

- Employees that possess or likely will possess inside information must comply with the Model Code.

The Group complies with SFO requirements and the Listing Rules and discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours mentioned in the SFO. Before the information is fully disclosed to the public, the Group ensures strict confidentiality. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information in the Company's announcements or circulars is not false or misleading as to a material fact, or false or misleading through omission of a material fact.

INTERNAL AUDIT FUNCTION

The Company does not have an internal audit department. After reviewing the Group's size and business, the Board concluded that it would be more cost-effective to appoint external professionals to perform independent reviews of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

SHAREHOLDERS' RIGHTS

The Company's general meetings foster communication between shareholders and the Board. General meetings besides the annual general meeting are called extraordinary general meetings ("EGMs").

Convening EGMs

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

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

Enquiries to the Board

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

Director Nominations

A shareholder wishing to nominate a candidate to become a Company director must deposit a written notice (the "Notice") to Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the Company Secretary.

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

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

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

Procedures for shareholders to put forward proposals at general meetings

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

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

The notice period given to all shareholders to consider the Proposal at the general meeting varies according to the following criteria:

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

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

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except when the Chairman, in good faith, decides to allow a resolution relating purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions set out in the notice of the forthcoming annual general meeting will be voted by poll.

CONSTITUTIONAL DOCUMENTS

No significant changes were made to the Company's constitutional documents during the year ended 31 December 2019.

INVESTOR RELATIONS

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

The 2020 AGM will be held on 10 June 2020. Its notice shall be sent to shareholders at least 21 clear days and 20 business days in advance.

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

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

羅兵咸永道

To the Shareholders of Kidsland International Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kidsland International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 119, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement 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 31 December 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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessing net realisable value of inventories
- Impairment assessment of the Group's underperforming retail stores

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessing net realisable value of inventories	
Refer to Note 4(a) and Note 21 to the consolidated financial statements. At 31 December 2019, net inventory balance of the Group amounted to approximately RMB580 million. The inventories are carried at the lower of cost and net realisable value. At 31 December 2019, the Group's inventory provision amounted to approximately RMB44.8 million. The Group is engaged in the retail business of toys and infant products and is subject to changing consumer demands and preferences for certain brands. Management's judgement is required for assessing the net realisable value of inventories in light of the status of the cooperative relationship with the brand owners, especially for those discontinued brands, which would impact the future clearance sales plan. Management determines the appropriate provisions for inventories based on a detailed historical sales analysis of inventories by brand, the Group's clearance plans for sale of these inventories, in particular the discontinued brands, and historical experience on selling prices and selling expenses for these inventories to estimate the net realisable value. We focused on this area due to the significant value of inventories and the critical estimates made by management on assessing the net realisable value of inventories.	Our procedures for assessing the appropriateness of management's judgements applied in determining the net realisable value of inventories included: • Understood, evaluated and tested the key controls over determining net realisable value of different brands of inventories; • Evaluated the assessment of cooperative relationship with brand owners made by management with respect to different brands of inventories as to their latest status of cooperation; • Evaluated the future sales plans , in particular those discontinued brands, through enquiries with management and with reference to historical instances of clearance sales and its corresponding sales analysis, which contained information as to historical selling prices and selling expenses; • Compared the carrying amount of the inventories, on a sample basis, to their net realisable value; • Tested, on a sampling basis, the supporting documents of latest selling prices of the inventory items; and • Tested the mathematical accuracy of management's year end calculation of provision for impairment of inventories. Based on the above audit procedures performed, we found that management's assessments were supported by the evidence that we obtained.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of the Group's underperforming retail stores	
Refer to Note 4(b) of the consolidated financial statements. Management determined that each retail store is a cash-generating unit ("CGU"). Certain of the Group's retail stores were loss making which, as an impairment indicator, indicated that impairment assessment of the relevant stores' leasehold improvement and right-of-use assets had to be performed. As at 31 December 2019, provision for impairment of leasehold improvement and right-of-use assets amounted to RMB2.0 million and RMB3.2 million, respectively. Management judgement is required to identify those stores requiring provision and determining the amount of provision for impairment of leasehold improvement and right-of-use assets, including the identification of impairment indicators and the determination of economic benefit deriving from operating those stores during the remaining non-cancellable lease period. The recoverable amount of each CGU was determined based on value-in-use calculation which involved the use of key assumptions in a discounted cash flow model, including revenue growth, gross profit margin and discount rate. We focused on this area because this assessment requires the use of significant estimates and judgement by management.	Our procedures for assessing the appropriateness of management's judgements applied in assessing the provision for impairment of underperforming stores included: • Obtained an understanding of and evaluated the management's procedures in the identification of underperforming stores which were loss making; • Assessed the valuation methodology adopted in management's preparation of the discounted cash flow forecast; • Evaluated the key assumptions used in the cash flow forecast, including revenue growth and gross profit margin, by comparing to actual historical performance of the relevant stores, and the business plans approved by management; • Evaluated the discount rate used in the forecast with reference to industry research; and • Tested the mathematical accuracy of the discounted cash flow model and the calculation of the impairment provisions. Based on the above audit procedures performed, we found that management's assessments were supported by the evidence that we obtained.

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.

RESPONSIBILITIES OF DIRECTORS AND THE 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.

CONSOLIDATED FINANCIAL STATEMENTS

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 is 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.

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.

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

- 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.

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 Lee Kin Wah, Albert.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2019

	Notes	**Year ended 31 December 2019 RMB'000**	Year ended 31 December 2018 RMB'000 (re-presented) *(Note 2.1.1)*
Revenue	*5*	**1,710,041**	1,650,108
Cost of sales	*8*	**(1,031,241)**	(947,754)
Gross profit		**678,800**	702,354
Other income	*6*	**14,564**	6,260
Other losses, net	*7*	**(28,086)**	(11,826)
(Impairment loss)/reversal of impairment loss on financial assets	*8*	**(3,850)**	3,127
Selling and distribution expenses	*8*	**(657,437)**	(671,665)
General and administrative expenses	*8*	**(81,569)**	(107,690)
Operating loss		**(77,578)**	(79,440)
Finance costs	*9*	**(13,811)**	–
Loss before income tax		**(91,389)**	(79,440)
Income tax credit/(expense)	*12*	**11,907**	(5,116)
Loss for the year		**(79,482)**	(84,556)
Other comprehensive income, net of tax:			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**5,971**	15,777
Total comprehensive loss for the year		**(73,511)**	(68,779)
(Loss)/profit for the year attributable to:			
– owners of the Company		**(82,208)**	(82,377)
– non-controlling interest		**2,726**	(2,179)
		(79,482)	(84,556)
Total comprehensive (loss)/income for the year attributable to:			
– owners of the Company		**(76,104)**	(66,318)
– non-controlling interest		**2,593**	(2,461)
		(73,511)	(68,779)
Loss per share, basic and diluted (RMB cents)	*13*	**(10.28)**	(10.30)

The notes on pages 53 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (re-presented) (Note 2.1.1)	As at 1 January 2018 RMB'000 (re-presented) (Note 2.1.1)
ASSETS				
Non-current assets				
Property, plant and equipment	15	58,377	61,670	49,547
Right-of-use assets	22	183,835	–	–
Intangible asset	18	9,882	10,174	–
Deposit paid for acquisition of property, plant and equipment	23	–	201	–
Rental deposits	23	24,734	27,377	20,830
Deferred tax assets	20	24,838	8,743	10,056
		301,666	108,165	80,433
Current assets				
Inventories	21	576,375	538,088	516,327
Trade receivables	23	134,190	149,621	152,579
Other receivables, deposits and prepayments	23	132,981	105,808	103,710
Right of return assets		3,271	609	–
Tax recoverable		190	827	–
Financial asset at fair value through profit or loss ("FVTPL")	19	–	16,468	–
Restricted cash	24	5,500	–	–
Bank balances and cash	24	30,685	112,246	260,527
		883,192	923,667	1,033,143
EQUITY				
Owners of the Company				
Share capital	28	6,931	6,931	6,931
Reserves	29	614,305	685,164	741,664
		621,236	692,095	748,595
Non-controlling interest	17	11,041	8,448	10,909
Total equity		632,277	700,543	759,504

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (re-presented) (Note 2.1.1)	As at 1 January 2018 RMB'000 (re-presented) (Note 2.1.1)
LIABILITIES				
Non-current liabilities				
Provision for reinstatement costs	25	6,687	8,161	10,089
Lease liabilities	22	91,189	–	–
		97,876	8,161	10,089
Current liabilities				
Trade payables	25	214,444	233,265	253,374
Other payables and accruals	25	81,386	67,715	84,560
Loan from a related company	26	13,695	–	–
Lease liabilities	22	101,458	–	–
Contract liabilities	25	35,752	16,212	–
Current tax liabilities		7,970	5,936	6,049
		454,705	323,128	343,983
Net current assets		428,487	600,539	689,160
Total assets less current liabilities	17	730,153	708,704	769,593
Net assets		632,277	700,543	759,504

The consolidated financial statements on page 48 to 119 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Lee Ching Yiu
DIRECTOR

Hung Shing Ming
DIRECTOR

The notes on pages 53 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2019

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 *(Note 29)*	Statutory reserve RMB'000 *(Note 29)*	Capital reserve RMB'000 *(Note 29)*	Translation reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interest RMB'000	Total RMB'000
Balance at 1 January 2018, re-presented *(note 2.1.1)*	6,931	323,968	(118,988)	4,180	178,240	(14,953)	3,208	366,009	748,595	10,909	759,504
Loss for the year	–	–	–	–	–	–	–	(82,377)	(82,377)	(2,179)	(84,556)
Other comprehensive income/(loss) for the year	–	–	–	–	–	16,059	–	–	16,059	(282)	15,777
Total comprehensive income/(loss) for the year	–	–	–	–	–	16,059	–	(82,377)	(66,318)	(2,461)	(68,779)
Recognition of share-based payment expense *(note 10)*	–	–	–	–	–	–	20,929	–	20,929	–	20,929
Share award contributed from a shareholder *(note 10)*	–	–	–	–	3,389	–	–	–	3,389	–	3,389
Dividend paid in respect of 2017	–	–	–	–	–	–	–	(14,500)	(14,500)	–	(14,500)
Share options lapsed	–	–	–	–	–	–	(1,676)	1,676	–	–	–
Balance at 31 December 2018, re-presented *(note 2.1.1)*	6,931	323,968	(118,988)	4,180	181,629	1,106	22,461	270,808	692,095	8,448	700,543
Balance at 1 January 2019, re-presented *(note 2.1.1)*	6,931	323,968	(118,988)	4,180	181,629	1,106	22,461	270,808	692,095	8,448	700,543
Change in accounting policy *(note 2.3)*	–	–	–	–	–	–	–	(4,625)	(4,625)	–	(4,625)
Balance at 1 January 2019, restated	6,931	323,968	(118,988)	4,180	181,629	1,106	22,461	266,183	687,470	8,448	695,918
(Loss)/profit for the year	–	–	–	–	–	–	–	(82,208)	(82,208)	2,726	(79,482)
Other comprehensive income/(loss) for the year	–	–	–	–	–	6,104	–	–	6,104	(133)	5,971
Total comprehensive (loss)/income for the year	–	–	–	–	–	6,104	–	(82,208)	(76,104)	2,593	(73,511)
Recognition of share-based payment expense *(note 10)*	–	–	–	–	–	–	6,431	–	6,431	–	6,431
Share award contributed from a shareholder *(note 10)*	–	–	–	–	3,439	–	–	–	3,439	–	3,439
Share options lapsed	–	–	–	–	–	–	(881)	881	–	–	–
Transfer to statutory reserve	–	–	–	263	–	–	–	(263)	–	–	–
Balance at 31 December 2019	6,931	323,968	(118,988)	4,443	185,068	7,210	28,011	184,593	621,236	11,041	632,277

The notes on pages 53 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2019

	Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000 (re-presented) *(Note 2.1.1)*
Cash flows from operating activities			
Net cash generated from/(used in) operations	*27(a)*	**95,419**	(55,598)
Hong Kong and overseas taxation paid		**(875)**	(4,743)
Net cash generated from/(used in) operating activities		**94,544**	(60,341)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(43,092)**	(49,535)
Purchase of financial asset at FVTPL		**–**	(15,869)
Purchase of intangible asset		**–**	(9,804)
Deposit paid for acquisition of property, plant and equipment		**–**	(201)
Proceeds from disposal of property, plant and equipment		**–**	35
Interest received		**331**	597
Net cash used in investing activities		**(42,761)**	(74,777)
Cash flows from financing activities			
Proceeds from loan from a related company	*27(c)*	**35,220**	–
Repayment of loan from a related company	*27(c)*	**(21,759)**	–
Principal elements of lease payments	*27(c)*	**(113,637)**	–
Interest elements of lease payments	*27(c)*	**(13,426)**	–
Net payment of rental deposits		**(986)**	–
Dividends paid		**–**	(14,500)
Increase in restricted cash		**(5,500)**	–
Net cash used in financing activities		**(120,088)**	(14,500)
Net decrease in cash and cash equivalents		**(68,305)**	(149,618)
Effect of foreign exchange rate changes, net		**(13,256)**	1,337
Cash and cash equivalents at beginning of year		**112,246**	260,527
Cash and cash equivalents at end of year	24	**30,685**	112,246

The notes on pages 53 to 119 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Kidsland International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in trading and sale of toys and infant products. The Group mainly operates in Mainland China (the "PRC") and Hong Kong.

The Company is a limited liability company incorporated in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 26 April 2017.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As stated in Note 2.1.1, these consolidated financial statements are presented in Renminbi ("RMB").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on the historical cost basis except for the financial asset at FVTPL which is measured at fair value.

2.1.1 Change in presentation currency

During the year, the Group has changed its presentation currency from Hong Kong dollars ("HK$") to RMB for the preparation of its consolidated financial statements. Having considered the principal activities of the Group are mainly conducted in the People's Republic of China ("PRC") where the functional currencies of those subsidiaries in the PRC are RMB, the directors of the Company considered that the change would result in a more appropriate presentation of the Group's transactions in these consolidated financial statements.

Change in presentation currency has been accounted for retrospectively in accordance with HKAS 8 "Accounting policies, change in accounting estimates and errors". Net profit, comprehensive income, total assets and total equity are unaffected by these presentational changes apart from the translation from HK$ to RMB as further detailed below.

Following the change in presentation currency, the financial information as previously reported has been re-translated in accordance with the provisions in HKAS 21 using the procedures outlined below, as if RMB had always been the Group's presentational currency:

- Assets and liabilities of foreign operations where the functional currency is not RMB have been translated into RMB at the relevant closing rates of exchange. Profit and loss items were translated into RMB at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the year are recognised in the foreign currency translation reserve; and

- Share capital, share premium and other reserves were translated at historical rates prevailing at the dates of transactions.

In addition to the comparative information in respect of the previous period provided in these consolidated financial statements, the Group presents an additional statement of financial position as at 1 January 2018 due to the change of presentation currency in accordance with HKAS 1 "Presentation of Financial Statements".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principal accounting policies

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

(a) *New and amended standards and interpretation adopted by the Group*

The Group has adopted the following new and amended standards and interpretation that have been issued and effective for the Group's financial year beginning on or after 1 January 2019:

Annual Improvements Project (Amendments)	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interest in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures. Refer to Note 2.3 below in relation to the adoption of HKFRS 16. The adoption of other new and amended standards did not have any material impact on the current period or any prior periods.

(b) *New and amended standards and interpretations not yet adopted*

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the new standards, new interpretations and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards, amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Impacts and changes in accounting policies on application of HKFRS 16 "Leases"

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments.

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group has adopted HKFRS 16 "Leases" from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard on a modified retrospective basis. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 6.5%.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Impacts and changes in accounting policies on application of HKFRS 16 "Leases" (Continued)

Consignment counters are not regarded as in scope of HKFRS 16 due to landlord's substantive substitution rights in the underlying assets.

Set out below is a reconciliation of the operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised on 1 January 2019:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018 (re-presented) *(Note 2.1.1)*	219,500
Less: Short-term leases to be recognised on a straight-line basis as expense	(20,361)
	199,139
Effect of discounting at incremental borrowing rate at the date of initial adoption	(34,740)
Lease liabilities recognised upon initial adoption of HKFRS 16	164,399
Representing:	
Current lease liabilities	45,164
Non-current lease liabilities	119,235
	164,399

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	At 1 January 2019 RMB'000
Leased premises	**163,244**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Impacts and changes in accounting policies on application of HKFRS 16 "Leases" (Continued)

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

Consolidated statement of financial position (extract)	At 31 December 2018 as re-presented RMB'000 *(Note 2.1.1)*	Effects of the adoption of HKFRS 16 RMB'000	**At 1 January 2019 restated RMB'000**
Non-current assets			
Property, plant and equipment	61,670	(5,664)	**56,006**
Right-of-use assets	–	163,244	**163,244**
Deferred tax assets	8,743	2,002	**10,745**
Current assets			
Other receivables, deposits and prepayments	105,808	(1,188)	**104,620**
Non-current liabilities			
Lease liabilities	–	119,235	**119,235**
Current liabilities			
Other payables and accruals	67,715	(1,380)	**66,335**
Lease liabilities	–	45,164	**45,164**
Equity			
Retained earnings	270,808	(4,625)	**266,183**

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 "Lease" and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries

2.4.1 Consolidation

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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and balance sheet, respectively.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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 the consolidated income statement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

Intra-group 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. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries (Continued)

2.4.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to the profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.4.2 Separate financial statements

Investments 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 investments 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.

2.5 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(a) 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 consolidated financial statements are presented in RMB, while the functional currency of the Company is HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the consolidated income statement.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through the profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidated, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. 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 item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised when replaced. All other repair and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on the assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, at the following annual rates:

Leasehold improvements	5 years or over the lease period, whichever is shorter
Furniture and equipment	5–10 years
Motor vehicles	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised in the consolidated income statement.

2.8 Intangible assets

Trademark

Separately acquired trademarks are shown at historical cost. Trademarks have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 20 years.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation 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 of disposal 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 impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassified debt investments when and only when its business model for managing those assets changes.

(b) *Recognition and derecognition*

Regular way purchases and sales 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 plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classified its debt instruments as financial assets at amortised cost.

Assets that 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 finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in "other losses, net" together with foreign exchange gains and losses.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets (Continued)

(d) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit loss ("ECL") associated with its assets carried at amortized 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.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis to 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 Group of the counterparty.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of inventories comprises cost of purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.10 for further information about the Group's accounting for trade and receivables for a description of the Group's impairment policies.

2.14 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Share capital

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

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 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 profit or loss 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 draw-down 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 reporting period.

2.18 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries and joint venture 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 is recognised, 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable consolidated income statement. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Regarding the accounting for deferred tax impact in relation to right of use asset and lease liability, the Group considered right of use asset and lease liability separately. Deferred tax was recognised based on temporary difference arise separately from right of use assets and liabilities.

Upon initial recognition of right of use asset and lease liability, if any temporary differences arose, the Group considered initial recognition exemption is not applicable to these temporary differences because right of use asset and liability are recognised at the same time.

2.19 Employee benefits

(a) *Employee benefit entitlements*

Salaries, bonuses, annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by the employees of the Group.

(b) *Pension obligations*

The Group contributes to a mandatory provident fund scheme which is a defined contribution retirement scheme and available to all Hong Kong employees. Both the Company and the staff are required to contribute 5% of the employees' relevant income with a ceiling of HK$1,500 per month to the MPF scheme. Staff may elect to contribute more than the minimum as a voluntary contribution. The Group's contributions to this mandatory provident fund scheme are expensed as incurred.

The Group also contributes to pension schemes established by municipal governments in respect of certain subsidiaries in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining 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).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

If the vested equity instruments are later lapsed and are not exercised, the corresponding amount recognised for services received from an employee is transferred from employees' share-based compensation reserve to retained earnings.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is recognised as an employee benefit expense or recharged to the subsidiary as appropriate with a corresponding increase in equity. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period, with a corresponding credit to equity in the parent entity accounts.

2.21 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 has been 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 expenditures 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 obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) *Sales of goods – retail and concessionaire sales*

Revenue from sales of goods including retail and concessionaire sales is recognised when control of the products has transferred, which generally coincides with the time when the goods are delivered to customers and title has passed. For concessionaire sales at consignment counters, control is transferred when the goods are sold to end customers instead of when the goods are delivered to department stores.

(b) *Sales of goods – internet sales*

Revenue from the sale of goods on the internet is recognised at the point when the control of the goods has transferred, being when the sales amount has been settled by the customer. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

(c) *Sales of goods – wholesales*

The Group sells a range of toys and infant products in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Certain of the Group's revenue contracts contains a refund clause whereby the customer can exchange for inventory items, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A liability arising from expected sales return (included in contract liability) is recognised for expected sales return in relation to sales made until the end of the reporting period. No significant element of financing is deemed present.

(d) *Sales of goods – customer loyalty programme (deferred revenue)*

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognised at the time of sale. Revenue is recognised when the points are redeemed or when they expire.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Earnings per share

(a) 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.

(b) 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.

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss and other comprehensive income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired.

2.25 Leases

As explained in Note 2.3 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.3.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 32). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Leases (Continued)

For leases of real estate for which the Group is a lessee, it has elected to separate lease and non-lease components and accounts for non-lease components as building management fee in selling and distribution expenses.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (included foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the directors of the Company. The directors provide principles for an overall risk management, as well as policies covering specific areas.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and Mainland China with most of the transactions settled in HK$, US$ and RMB. The Group is exposed to foreign exchange risk arising mainly from the exposure of HK$ and US$ against RMB as the majority of the Group's foreign currency financial assets and liabilities including deposits in banks, trade receivables and trade payables are denominated in HK$ and US$.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange rate risk.

At 31 December 2019, if HK$ had strengthened/weakened by 3% against RMB with all other variables held constant, loss for the year would have been approximately RMB244,000 higher/lower (2018: RMB1,481,000 lower/higher) mainly as a result of foreign exchange losses/gains (2018: gains/losses) on translation of HK$ denominated net trade payables (2018: deposits in banks and net trade receivables).

At 31 December 2019, if US$ had strengthened/weakened by 3% against RMB with all other variables held constant, loss for the year would have been approximately RMB241,000 higher/lower (2018: RMB66,000 lower/higher) mainly as a result of foreign exchange losses/gains (2018: gains/losses) on translation of US$ denominated net trade payables (2018: deposits in banks).

The foreign exchange risk arising from the exposure of other foreign currencies is considered to be minimal.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from a loan from a related company and bank deposits which are carried at floating rate. As at 31 December 2019, if the market interest rates have been 100 basis points higher/lower with all other variables held constant, loss for the year would have been RMB175,000 lower/higher (2018: RMB1,006,000 lower/higher), as the Group is in net cash position.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, and deposits with banks, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(i) Risk management

Sales to retail customers are made in cash or via major credit cards. The Group has policies in place to ensure that sales of products on credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's concessionaire sales through department stores are generally collectible within 30 to 60 days from the invoice date while credit sales to hypermarkets are generally on credit terms within 90 days. Normally the Group does not require collaterals from trade debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

Substantially all the deposits with banks are held in international financial institutions located in Hong Kong and Mainland China, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any losses arising from non-performance by these counterparties.

(ii) Impairment of financial assets

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

To measure the expected credit losses, trade receivables has been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Consumer Price Index of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss rate adopted by the Group ranges from 1.7% to 39.7% (2018: 1.0% to 48.7%).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

(ii) Impairment of financial assets (Continued)

Movement in loss allowances for trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	6,493	9,620
Increase/(decrease) in loss allowance recognised in profit or loss during the year	3,850	(3,127)
Written-off of trade receivables	(45)	–
At end of year	10,298	6,493

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For other financial assets at amortised cost, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is immaterial.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

With prudent liquidity risk management, the Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including loan from a related company.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statements of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Within 1 year or on Demand RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018						
Trade payables	233,265	–	–	–	233,265	233,265
Other payables and accruals	21,098	–	–	–	21,098	21,098
	254,363	–	–	–	254,363	254,363

	Within 1 year or on Demand RMB'000	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**	**Total contractual cash flows RMB'000**	**Carrying amount RMB'000**
As at 31 December 2019						
Trade payables	**214,444**	**–**	**–**	**–**	**214,444**	**214,444**
Other payables and accruals	**35,955**	**–**	**–**	**–**	**35,955**	**35,955**
Loan from a related company	**13,695**	**–**	**–**	**–**	**13,695**	**13,695**
Lease liabilities	**128,076**	**71,222**	**42,251**	**–**	**241,549**	**192,647**
	392,170	**71,222**	**42,251**	**–**	**505,643**	**456,741**

3 FINANCIAL RISK MANAGEMENT (Continued)

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.

The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, obtain new bank borrowings, return capital to shareholders or issue new shares.

The table below analyses the Group's capital structure as at 31 December 2019:

	2019 RMB'000	2018 RMB'000
Bank balances and cash	30,685	112,246
Restricted cash	5,500	–
Loan from a related company	(13,695)	–
Lease liabilities	(192,647)	–
Net (debt)/cash position	(170,157)	112,246
Total equity	632,277	700,543
Total capital	462,120	812,789

The Group was in a net debt position of RMB170,157,000 as at 31 December 2019 (2018: net cash position of RMB112,246,000). The Group's gearing ratio, as calculated by dividing the Group's net debt by the Group's total equity, as at 31 December 2019 is approximately 27% (2018: N/A).

The net debt to equity ratio increased from Nil to 27% following the adoption of HKFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and financial liabilities, including cash and cash equivalents, trade and other receivables, trade and other payables approximate their fair values, which either due to their short-term maturities.

(a) *Fair value measurement of financial instruments*

Some of the Group's financial assets are measured at fair value at the end of reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable. Set out below is the information about how the fair values of the Group's financial assets that are measured at fair value are determined, including the valuation technique and inputs used:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2019				
Financial asset at FVTPL				
– Unlisted equity securities	–	–	–	–
At 31 December 2018				
Financial asset at FVTPL (re-presented, note 2.1.1)				
– Unlisted equity securities	–	16,468	–	16,468

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

(a) Estimation of net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on current market conditions and the historical experience of selling products of similar nature. Management reassesses the estimation at each balance sheet date.

(b) Estimation of impairment of non-financial assets

The impairment loss for non-financial assets, comprising property, plant and equipment, intangible asset and right-of-use asset is recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Notes 2.7 to 2.9. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, which are based on the best information available to reflect the amount obtainable at each balance sheet date.

(c) Identification of lease and determination of the lease term

In identifying whether a contract contains element of a lease, management consider all facts and circumstances surrounding the arrangement and determine whether this would give rise to the Group's control over an identified asset, and whether the Group has the right to obtain substantially all of the economic benefit or direct how and for what purpose the asset is used throughout the period of use.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, warehouses and retail stores, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension options in the Group's leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of 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 each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

(e) Estimation of useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated, and will write-off or write-down obsolete, abandoned or sold assets.

(f) Income taxes

The Group is subject to various taxes in Hong Kong and Mainland China. Significant judgement is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

5 REVENUE AND SEGMENT INFORMATION

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

The executive directors assess the performance of the operating segments based on a measure of reportable segment profit/(loss). This measurement basis excludes other income, other losses, net, finance costs, and unallocated income and expenses.

Segment assets mainly exclude deferred tax assets and other assets that are managed on a central basis.

Segment liabilities mainly exclude current tax liabilities, loan from a related company and other liabilities that are managed on a central basis.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are based on the country where the assets are located.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) The following is an analysis of the Group's segment information provided to the executive directors for the reportable segments for the year ended 31 December 2019:

	Sales of toys RMB'000	Sales of infant products RMB'000	Total RMB'000
Revenue from external customers	**1,635,616**	**74,425**	**1,710,041**
Reportable segment profit	**601,719**	**21,651**	**623,370**
Unallocated income			**14,564**
Unallocated expenses			**(538,334)**
Unallocated impairment loss on financial asset			**(3,850)**
Unallocated fair value loss on financial asset at FVTPL			**(16,549)**
Unallocated other losses, net			**(11,537)**
Depreciation and amortisation			**(159,053)**
Loss before income tax			**(91,389)**
Income tax credit			**11,907**
Loss for the year			**(79,482)**

(b) The following is an analysis of the Group's segment information provided to the executive directors for the reportable segments for the year ended 31 December 2018:

(Re-presented) *(Note 2.1.1)*	Sales of toys RMB'000	Sales of infant products RMB'000	Total RMB'000
Revenue from external customers	1,567,069	83,039	1,650,108
Reportable segment profit	629,379	34,217	663,596
Unallocated income			6,260
Unallocated expenses			(701,411)
Unallocated reversal of impairment loss on financial asset			3,127
Unallocated other losses, net			(11,826)
Depreciation and amortisation			(39,186)
Loss before income tax			(79,440)
Income tax expense			(5,116)
Loss for the year			(84,556)

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) The following is an analysis of the Group's assets and liabilities as at 31 December 2019 by reportable segment:

	Sales of toys RMB'000	Sales of infant products RMB'000	Total RMB'000
Segment assets	527,865	48,510	576,375
Deferred tax assets			24,838
Unallocated assets			583,645
Total assets per consolidated statement of financial position			1,184,858
Segment liabilities	206,418	8,026	214,444
Current tax liabilities			7,970
Loan from a related company			13,695
Unallocated liabilities			316,472
Total liabilities per consolidated statement of financial position			552,581
Additions to non-current assets	186,388	–	186,388

(d) The following is an analysis of the Group's assets and liabilities as at 31 December 2018 by reportable segment:

(Re-presented) *(Note 2.1.1)*	Sales of toys RMB'000	Sales of infant products RMB'000	Total RMB'000
Segment assets	460,654	77,434	538,088
Deferred tax assets			8,743
Unallocated assets			485,001
Total assets per consolidated statement of financial position			1,031,832
Segment liabilities	221,301	11,964	233,265
Current tax liabilities			5,936
Unallocated liabilities			92,088
Total liabilities per consolidated statement of financial position			331,289
Additions to non-current assets	59,339	–	59,339

5 REVENUE AND SEGMENT INFORMATION (Continued)

(e) The Group has recognised the following assets and liabilities related to contracts with customers:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Current assets		
Right of return assets	**3,271**	609
Current contract liabilities		
– Receipts in advance	**30,495**	14,297
– Customer loyalty programme	**1,301**	1,172
– Liability arising from expected sales return	**3,956**	743
Total	**35,752**	16,212

Where a customer has a right to return a product within a given period, the Group recognises a liability arising from expected sales return of RMB3,956,000 (2018: RMB743,000) for the amount of consideration received for which the entity does not expect to be entitled. The Group also recognises a right to the returned goods of RMB3,271,000 (2018: RMB609,000) measured by reference to the former carrying amount of the goods. The costs to recover the products are not material because the customers usually return them in a saleable condition.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**16,212**	20,656

5 REVENUE AND SEGMENT INFORMATION (Continued)

(f) Sales and distribution channels

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

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

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Self-operated retail channels		
– Retail stores	**656,550**	618,018
– Consignment counters	**474,918**	519,704
– Online stores	**91,167**	83,734
Wholesale channels		
– Distributors	**378,927**	322,526
– Hypermarket and supermarket chains	**25,324**	33,392
– Online key accounts	**83,155**	72,734
	1,710,041	1,650,108

(g) The following is an analysis of revenue from external customers by geographical segment:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Mainland China	**1,579,954**	1,522,953
Hong Kong	**130,087**	127,155
Total	**1,710,041**	1,650,108

For the years ended 31 December 2019 and 2018, there was no transaction with a single external customer that amounted to 10% or more of the Group's revenue.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(h) The total of non-current assets other than deferred tax assets, broken down by location of the assets, is shown in the following:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Mainland China	**242,213**	72,644
Hong Kong	**34,615**	26,778
Total	**276,828**	99,422

6 OTHER INCOME

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Interest income	**331**	597
Government grants *(Note)*	**10,035**	3,900
Sundry income	**4,198**	1,763
	14,564	6,260

Note: The Group recognises government grants from certain municipal governments and authorities of economic development zones. These grants are mainly in the form of refund whereby the amount is based on a percentage of taxes paid during the year. There are no unfulfilled condition.

7 OTHER LOSSES, NET

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Net exchange loss	**(10,668)**	(12,755)
Loss on disposal of property, plant and equipment	**(231)**	(6)
Fair value loss on financial asset at fair value through profit or loss ("FVTPL")	**(16,549)**	–
Reversal of provision for reinstatement costs	**–**	1,866
Others	**(638)**	(931)
	(28,086)	(11,826)

8 EXPENSES BY NATURE

Expenses included in cost of sales, impairment loss/(reversal of impairment loss) on financial assets, selling and distribution expenses, and general and administrative expenses are analysed as follows:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Auditors' remuneration		
– Audit services	**2,245**	1,967
– Non-audit services	**58**	1,957
Amortisation of intangible asset *(Note 18)*	**511**	–
Depreciation of property, plant and equipment *(Note 15)*	**38,730**	39,186
Depreciation of right-of-use assets *(Note 22)*	**119,812**	–
Cost of inventories	**976,324**	935,411
Rental expenses in respect of		
– variable leases payments *(Note 22)*	**12,665**	–
– short term leases *(Note 22)*	**27,096**	–
– other rental expenses	**–**	159,482
Advertising and promotional expenses	**34,822**	59,384
Concessionaire fees	**147,700**	161,730
Employee benefit expenses (including directors' emoluments) *(Note 10)*	**118,254**	147,854
Outsourced personnel service fee	**126,565**	116,471
Provision for/(reversal of) impairment loss on trade receivables	**3,850**	(3,127)
Provision for/(reversal of) impairment loss on inventories, net (included in cost of sales)	**32,452**	(1,786)
Impairment loss on property, plant and equipment *(Note)*	**1,984**	–
Impairment loss on right-of-use assets *(Note)*	**3,203**	–
Transportation	**19,833**	22,355
Building management fee	**31,929**	27,819

Note: The Group determines each individual retail store as a separately identifiable cash-generating unit ("CGU") and monitors their financial performance. A provision for impairment of the Group's property, plant and equipment and right-of-use assets of RMB1,984,000 and RMB3,203,000 respectively for the year ended 31 December 2019 (2018: Nil) was made based on impairment assessment carried out for the retail store assets which have an impairment indicator, the recoverable amounts are based on value-in-use calculations. These calculations used projected cash flows and key assumptions such as future revenue growth rate and gross margin percentage of individual CGUs based on the Group's annual budget covering an average of 2-year period. A discount rate of 10.78% applied to bring the future cash flows back to their present values. The impairment loss on property, plant and equipment and right-of-use assets is attributable to sales of toys.

9 FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Interest expenses on loan from a related company	**385**	–
Interest expenses on lease liabilities	**13,426**	–
	13,811	–

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Salaries and allowances	**87,541**	99,453
Discretionary bonus	**310**	1,668
Share-based payment	**9,870**	24,318
Pension costs – defined contribution plans *(Note)*	**20,533**	22,415
	118,254	147,854

Note:

Employees of the Group's subsidiaries in Hong Kong participated in a mandatory provident fund scheme ("MPF Scheme") which is a defined contribution scheme. The assets of the MPF scheme are held separately from those of the Group under independently administered funds. Contributions to the schemes by the employers and employees are calculated as a percentage of employees' basic salaries. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes administered and operated by municipal governments. The Group's subsidiaries in Mainland China contribute funds to the retirement schemes to fund the retirement benefits of the employees which are calculated on certain percentages of the average employee salaries as agreed by the municipal governments. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

Retirement benefit scheme costs amounting to RMB20,533,000 (2018: RMB22,415,000) were paid by the Group during the year. Forfeited contributions totalling RMB626,000 (2018: Nil) were refunded and credited in the employee benefit expenses during the year.

Share-based payment comprise of expenses in relation to the Group's pre-IPO share option scheme and share awards as described in Note 30. During the year ended 31 December 2019, approximately RMB6,431,000 (2018: RMB20,929,000) was credited to share option reserve and approximately RMB3,439,000 (2018: RMB3,389,000) was credited to capital reserve.

10 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(i) Five highest paid individuals

The directors' emoluments presented in Note 11(a) include the emoluments of 2 (2018: 3) highest paid individuals in the Group. The emoluments of the remaining 3 (2018: 2) highest paid individuals during the year ended 31 December was:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Salaries and allowances	**3,090**	2,126
Discretionary bonus	**110**	262
Share-based payment	**694**	4,076
Employer's contribution to retirement benefit scheme	**284**	292
	4,178	6,756

Emolument band	Number of individuals 2019	2018
Nil – HK$1,000,000 (equivalent to approximately RMB880,500)	**–**	–
HK$1,000,001 – HK$1,500,000 (equivalent to approximately RMB880,501 – RMB1,320,750)	**1**	–
HK$1,500,001 – HK$2,000,000 (equivalent to approximately RMB1,320,751 – RMB1,761,000)	**2**	–
HK$2,000,001 – HK$2,500,000 (equivalent to approximately RMB1,761,001 – RMB2,201,250)	**–**	1
HK$5,500,001 – HK$6,000,000 (equivalent to approximately RMB4,842,751 – RMB5,283,000)	**–**	1

(ii) No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors or the five highest paid individuals waived or agreed to waive any emoluments during the year (2018: Nil).

(iii) Senior management's emoluments by band

The senior management's emoluments fell within the following bands:

Emolument band	Number of individuals 2019	2018
Nil – HK$1,000,000 (equivalent to approximately RMB880,500)	**–**	1
HK$1,000,001 – HK$1,500,000 (equivalent to approximately RMB880,501 – RMB1,320,750)	**5**	1
HK$1,500,001 – HK$2,000,000 (equivalent to approximately RMB1,320,751 – RMB1,761,000)	**2**	1
HK$2,000,001 – HK$2,500,000 (equivalent to approximately RMB1,761,001 – RMB2,201,250)	**–**	5
HK$5,500,001 – HK$6,000,000 (equivalent to approximately RMB4,842,751 – RMB5,283,000)	**–**	1

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

Pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefit of Directors) Regulation (Cap. 622G) and the Listing Rules, the emoluments paid or payable to every director and the chief executive for the year are as follows:

	2019						
	Cash emoluments					Non-cash emoluments	
Name	Directors' fees RMB'000	Salary and allowances RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Discretionary bonus RMB'000	Total cash emoluments RMB'000	Share-based payment RMB'000	Total (including non-cash emoluments) RMB'000
Executive directors							
Mr. Lee Ching Yiu	88	–	–	–	88	819	907
Mr. Hung Shing Ming *(Note (a))*	88	4,226	211	–	4,525	3,439	7,964
Ms. Zhong Mei	88	1,665	114	–	1,867	819	2,686
Non-executive directors							
Mr. Du Ping	88	–	–	–	88	307	395
Mr. Duan Lanchun	88	–	–	–	88	–	88
Independent non-executive directors							
Mr. Cheng Yuk Wo	247	–	–	–	247	–	247
Mr. Huang Lester Garson	247	–	–	–	247	–	247
Mr. Lam Lee G.	247	–	–	–	247	–	247
	1,181	5,891	325	–	7,397	5,384	12,781

11 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

Name	2018 (re-presented) Cash emoluments Directors' fees RMB'000	Salary and allowances RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Discretionary bonus RMB'000	Total cash emoluments RMB'000	Non-cash emoluments Share-based payment RMB'000	Total (including non-cash emoluments) RMB'000
Executive directors							
Mr. Lee Ching Yiu	84	–	–	–	84	2,165	2,249
Dr. Lo Wing Yan *(Note (b))*	84	3,293	419	789	4,585	1,121	5,706
Ms. Zhong Mei	84	1,726	121	475	2,406	2,165	4,571
Non-executive directors							
Mr. Du Ping	84	–	–	–	84	812	896
Mr. Duan Lanchun	84	–	–	–	84	–	84
Independent non-executive directors							
Mr. Cheng Yuk Wo	237	–	–	–	237	–	237
Mr. Huang Lester Garson	237	–	–	–	237	–	237
Mr. Lam Lee G.	237	–	–	–	237	–	237
	1,131	5,019	540	1,264	7,954	6,263	14,217

Notes:

(a) Appointed on 1 January 2019.

(b) Resigned on 31 December 2018.

(c) RMB5,384,000 (2018: RMB6,263,000) in the above Director's emoluments represent the Group's share-based payment to Directors, which are non-cash in nature.

11 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits

During the year ended 31 December 2019, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking through defined benefit pension plans (2018: Nil).

(c) Directors' termination benefits

During the year ended 31 December 2019, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2018: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, no consideration was provided to or receivable by third parties for making available Directors' services (2018: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2019, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporates and connected entities (2018: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

12 INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credited)/charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Current income tax		
– Hong Kong profits tax	**975**	1,857
– PRC corporate income tax	**2,000**	1,993
	2,975	3,850
Over-provision in prior years		
– Hong Kong profits tax	**(36)**	(60)
– PRC corporate income tax	**(776)**	–
	(812)	(60)
Deferred tax *(Note 20)*	**(14,070)**	1,326
	(11,907)	5,116

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

PRC corporate income tax is provided on the profits of the Group's subsidiaries in the PRC at 25% (2018: 25%). The applicable rate of Hong Kong profits tax is 16.5% (2018: 16.5%).

12 INCOME TAX (CREDIT)/EXPENSE (Continued)

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2019 **RMB'000**	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Loss before income tax	**(91,389)**	(79,440)
Tax calculated at tax rate of 25%	**(22,847)**	(19,860)
Income not subject to tax	**(137)**	(7,269)
Expenses not deductible for tax purposes	**1,999**	15,135
Overprovision in prior years	**(812)**	(60)
Tax losses for which no deferred income tax asset was recognised	**8,506**	17,911
Deductible temporary differences not recognised	**33**	98
Utilisation of previously unrecognised tax losses	**(438)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,789**	(839)
Income tax (credit)/expense	**(11,907)**	5,116

13 LOSSES PER SHARE

Basic

Basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2019	2018 (re-presented) *(Note 2.1.1)*
Loss attributable to owners of the Company (RMB'000)	**(82,208)**	(82,377)
Weighted average number of ordinary shares in issue ('000)	**800,000**	800,000
Basic losses per share (RMB cents)	**(10.28)**	(10.30)

Diluted

For the years ended 31 December 2019 and 2018, diluted losses per share equals basic losses per share as exercise of the outstanding share options would have an anti-dilutive effect which results in a reduction in loss per share for the years ended 31 December 2019 and 31 December 2018.

14 DIVIDENDS

No dividend was proposed by the directors of the Company during 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2018, re-presented, *Note 2.1.1*				
Cost	115,893	22,592	365	138,850
Accumulated depreciation	(74,344)	(14,688)	(271)	(89,303)
Net book amount	41,549	7,904	94	49,547
Year ended 31 December 2018, re-presented, *Note 2.1.1*				
Opening net book amount	41,549	7,904	94	49,547
Exchange differences	1,728	87	–	1,815
Additions	45,392	4,143	–	49,535
Disposals	–	(41)	–	(41)
Depreciation *(Note)*	(34,780)	(4,316)	(90)	(39,186)
Closing net book amount	53,889	7,777	4	61,670
At 31 December 2018, re-presented, *Note 2.1.1*				
Cost	160,152	24,796	365	185,313
Accumulated depreciation	(106,263)	(17,019)	(361)	(123,643)
Net book amount	53,889	7,777	4	61,670

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2019				
Opening net book amount (as re-presented)	53,889	7,777	4	61,670
Adoption of HKFRS 16 *(Note 2.3)*	(5,664)	–	–	(5,664)
Opening net book amount (restated)	48,225	7,777	4	56,006
Exchange differences	177	47	–	224
Additions	40,063	3,029	–	43,092
Disposals	–	(231)	–	(231)
Depreciation *(Note)*	(35,351)	(3,375)	(4)	(38,730)
Impairment loss	(1,984)	–	–	(1,984)
Closing net book amount	51,130	7,247	–	58,377
At 31 December 2019				
Cost	143,389	27,553	365	171,307
Accumulated depreciation	(90,275)	(20,306)	(365)	(110,946)
Accumulated impairment	(1,984)	–	–	(1,984)
Net book amount	51,130	7,247	–	58,377

Note: Depreciation of property, plant and equipment is included in selling and distribution expenses and general and administrative expenses amounting to RMB31,354,000 (2018: RMB33,001,000) and RMB7,376,000 (2018: RMB6,185,000), respectively, for the year.

16 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Group at 31 December 2019 which, in the opinion of the directors, principally affect the results or form a substantial portion of the net assets of the Group:

Name of entity	Place of incorporation and kind of legal entity	Particular of issued share capital	Principal activities	Ownership interest held by the Group
ANB (HK) Limited	Hong Kong, limited liability company	HK$1,000	Investment in trademarks	100% (2018: 100%)
Au Nain Bleu Paris	France, limited liability company	EUR10,000	Retailing of toys	90% (2018: Nil)
Kidsland Distribution Limited	Hong Kong, limited liability company	HK$1,000	Trading and sale of toys and infant products	100% (2018: 100%)
Kidsland HK Limited	Hong Kong, limited liability company	HK$1,000	Trading and sale of toys and infant products	100% (2018: 100%)
Kidsland Holdings Limited	British Virgin Islands, limited liability company	US$1	Investment holding	100% (2018: 100%)
Kidsland LCS Limited	Hong Kong, limited liability company	HK$8,000,000	Retailing of toys	100% (2018: 100%)
Prince Asia Limited	Hong Kong, limited liability company	HK$1	Investment holding	58% (2018: 58%)
Silverkids Inc. ("Silverkids")	British Virgin Islands, limited liability company	US$100	Investment holding	58% (2018: 58%)
北京匯智樂思商貿有限公司	The PRC, limited liability company	HK$3,800,000	Investment holding	100% (2018: 100%)
廣州智樂商業有限公司	The PRC, limited liability company	RMB500,000	Trading and sale of toys and infant products	100% (2018: 100%)
北京孩思樂商業有限公司	The PRC, limited liability company	RMB3,000,000	Trading and sale of toys and infant products	100% (2018: 100%)
北京凱奇樂商業有限公司	The PRC, limited liability company	RMB2,000,000	Trading and sale of toys and infant products	100% (2018: 100%)
廣州孩思樂商貿有限公司	The PRC, limited liability company	RMB500,000	Trading and sale of toys and infant products	100% (2018: 100%)
上海孩思樂商貿有限公司	The PRC, limited liability company	RMB500,000	Trading and sale of toys and infant products	100% (2018: 100%)

16 SUBSIDIARIES (Continued)

Name of entity	Place of incorporation and kind of legal entity	Particular of issued share capital	Principal activities	Ownership interest held by the Group
成都孩思樂商貿有限公司	The PRC, limited liability company	RMB500,000	Trading and sale of toys and infant products	100% (2018: 100%)
深圳孩思樂商貿有限公司	The PRC, limited liability company	RMB500,000	Trading and sale of toys and infant products	100% (2018: 100%)
銀樂寶（天津）商貿有限公司	The PRC, limited liability company	HK$17,000,000	Trading and sale of toys	58% (2018: 58%)
凱知樂貿易（天津）有限公司	The PRC, limited liability company	RMB100,000,000*	Trading and sale of toys and infant products	100% (2018: 100%)

* Registered capital

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

17 NON-CONTROLLING INTERESTS

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Current assets	**99,464**	72,627
Current liabilities	**(73,172)**	(52,514)
Current net assets	**26,292**	20,113
Non-current assets	**1**	1
Non-current liabilities	**–**	–
Non-current net assets	**1**	1
Net assets	**26,293**	20,114
Accumulated non-controlling interests	**11,043**	8,448

17 NON-CONTROLLING INTERESTS (Continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
		(re-presented)
		(Note 2.1.1)
Revenue	**213,053**	154,026
Profit/(loss) for the year	**6,512**	(5,189)
Other comprehensive loss for the year	**(333)**	(671)
Total comprehensive income/(loss)	**6,179**	(5,860)
Profit/(loss) allocated to non-controlling interests	**2,735**	(2,179)
Dividends paid to non-controlling interests	**–**	–
Cash flows from operating activities	**(615)**	(740)
Cash flows from investing activities	**16**	22
Cash flows from financing activities	**–**	7
Net decrease in cash and cash equivalents	**(599)**	(711)

18 INTANGIBLE ASSET

	Trademark RMB'000
At 1 January 2018, re-presented, *Note 2.1.1*	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 31 December 2018, re-presented, *Note 2.1.1*	
Opening net book amount	–
Additions	9,804
Exchange differences	370
Closing net book amount	10,174
At 31 December 2018, re-presented, *Note 2.1.1*	
Cost and net book amount	10,174
Year ended 31 December 2019	
Opening net book amount	**10,174**
Amortisation charge *(Note)*	**(511)**
Exchange differences	**219**
Closing net book amount	**9,882**
At 31 December 2019	
Cost	**10,402**
Accumulated amortisation	**(520)**
Net book amount	**9,882**

Note: Amortisation of RMB511,000 (2018: Nil) for the year ended 31 December 2019 has been charged to 'selling and distribution expenses' in the consolidated statement of profit or loss and other comprehensive income.

19 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Unlisted equity securities, at fair value *(Note)*	–	16,468
At beginning of year	16,468	–
Addition	–	15,869
Fair value loss	(16,549)	–
Exchange differences	81	599
At end of year	–	16,468

Note: The amount represented an investment in 1.5% interest in equity of an unlisted company incorporated in the PRC. In December 2018, instead of the original plan of holding the investment for capital appreciation and dividend, the management has changed the intention to sell it for cash to invest in other projects. Decrease in fair value for these equity securities during the year ended 31 December 2019 as management consider the likelihood of recovering the amount is remote.

20 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off the tax assets against the tax liabilities and when the deferred income taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Deferred tax assets	24,838	8,743

Deferred income taxation is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
At beginning of year	8,743	10,056
Recognised on adoption of HKFRS 16	2,002	–
Credited/(charged) to consolidated income statement *(Note 12)*	14,070	(1,326)
Exchange realignment	23	13
At end of year	24,838	8,743

20 DEFERRED INCOME TAX (Continued)

The movement on deferred income tax assets and liabilities are as follows:

	Deferred tax assets									Deferred tax liabilities	
	Decelerated tax depreciation RMB'000	Impairment of leasehold improvement RMB'000	Unrealised profit on inventories RMB'000	Provision for expected credit loss RMB'000	Allowance for inventories RMB'000	Provision for customer loyalty programme RMB'000	Provision for liability arising from expected sales return RMB'000	Lease liabilities RMB'000	Intangible asset RMB'000	Right-of-use assets RMB'000	Total RMB'000
Balance at 1 January 2018, re-presented *(Note 2.1.1)*	60	–	3,466	2,405	3,895	230	–	–	–	–	10,056
(Charged)/credited to profit or loss	328	–	(161)	(782)	(807)	63	33	–	–	–	(1,326)
Exchange realignment	13	–	–	–	–	–	–	–	–	–	13
Balance at 31 December 2018, re-presented *(Note 2.1.1)*	401	–	3,305	1,623	3,088	293	33	–	–	–	8,743
Balance at 1 January 2019, re-presented *(Note 2.1.1)*	401	–	3,305	1,623	3,088	293	33	–	–	–	8,743
Recognised on adoption of HKFRS 16	–	–	–	–	–	–	–	41,100	–	(39,098)	2,002
(Charged)/credited to profit or loss	498	496	2,666	952	8,112	32	138	5,872	84	(4,780)	14,070
Exchange realignment	15	–	–	–	–	–	–	54	2	(48)	23
Balance at 31 December 2019	914	496	5,971	2,575	11,200	325	171	47,026	86	(43,926)	24,838

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB181,572,000 (2018: RMB209,837,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

At 31 December 2019, the Group had unused tax losses of RMB112,119,000 (2018: RMB79,085,000) available to offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years.

20 DEFERRED INCOME TAX (Continued)

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
2019	–	988
2020	3,033	3,033
2021	2,119	2,119
2022	3,660	3,660
2023	69,285	69,285
2024	34,022	–
	112,119	79,085

21 INVENTORIES

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Merchandise	621,174	550,435
Less: Provision for impairment	(44,799)	(12,347)
	576,375	538,088

Inventories recognised as an expense during the year ended 31 December 2019 amounted to RMB976,324,000 (2018: RMB935,411,000). These were included in cost of sales.

Write-downs of inventories to net realisable value amounted to RMB32,452,000 (reversal of write-downs of inventories in 2018: RMB1,786,000). These were recognised as an expense during the year ended 31 December 2019 and included in 'cost of sales' in the consolidated statement of profit or loss and other comprehensive income.

22 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

	2019 RMB'000	1 January 2019 RMB'000 *(Note 2.3)*
Right-of-use assets		
– Leased premises	**187,038**	163,244
Less: Impairment provision	**(3,203)**	–
	183,835	163,244

Additions to right-of-use assets amounted to RMB143,296,000.

	2019 RMB'000	1 January 2019 RMB'000 *(Note 2.3)*
Lease liabilities		
Current	**101,458**	45,164
Non-current	**91,189**	119,235
	192,647	164,399

22 LEASES (Continued)

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	2019 RMB'000
Depreciation charge of right-of-use assets (included in selling expenses and administrative expenses)	119,812
Impairment loss on right-of-use assets	3,203
Interest expense (included in finance cost)	13,426
Expense relating to short-term leases (included in selling expenses and administrative expenses) (2018: operating lease payments)	27,096
Expense relating to variable lease payments not included in lease liabilities (included in selling expenses)	12,665

The total cash outflow for leases in 2019 was RMB166,824,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 6 months to 3 years, but may have extension options as described in (v) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms with percentages ranging from 5% to 20% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales (excluding the portion of minimum lease payment) are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(v) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

23 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Trade receivables from contracts with customers	**144,488**	156,114
Provision for impairment	**(10,298)**	(6,493)
	134,190	149,621
Other receivables, deposits and prepayments		
– Rental deposits	**56,135**	55,149
– Other deposits	**10,794**	7,033
– Prepayments for purchase of merchandise stock for resale and expenses	**25,184**	24,689
– Rebate receivables from suppliers	**20,865**	19,719
– Promotion income receivable from brand owners	**9,868**	3,179
– Other taxes recoverable	**25,813**	17,188
– Others	**9,056**	6,429
	291,905	283,007
Presented as non-current assets	**24,734**	27,578
Presented as current assets	**267,171**	255,429
	291,905	283,007

The Group's retail revenue through self-operated retail stores in the PRC are transacted either by cash, credit cards, Alipay or WeChat Pay in which the settlement period is normally within 2 days from transaction date. The Group's internet sales are transacted through electronic payment platforms which are settled immediately. The Group's concessionaire revenue through department stores are generally collected by the department stores from the ultimate customers and then pay the balance after deducting the concessionaire fee to the Group. The credit period granted to department stores ranges from 30 days to 180 days.

The Group requires most of its distributors to pay in advance, while offers credit terms of 15 days to 90 days to hypermarket and supermarket chains.

The carrying amounts of trade and other receivables and deposits approximate their fair values. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

23 TRADE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The ageing analysis of the trade receivables as at the end of the reporting period, and net of provision, based on invoice date is as follows:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Within to 30 days	**108,098**	119,456
31 to 60 days	**8,373**	19,410
61 to 90 days	**3,108**	3,857
91 to 180 days	**12,250**	6,898
Over 180 days	**2,361**	–
	134,190	149,621

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 31 December 2019 by RMB3,805,000 (2018: decrease of the loss allowance by RMB3,127,000) for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

24 BANK BALANCES AND CASH AND RESTRICTED CASH

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Restricted cash	**5,500**	–
Bank balances and cash on hand	**30,685**	112,246
Total bank balances and cash and restricted cash	**36,185**	112,246

24 BANK BALANCES AND CASH AND RESTRICTED CASH (Continued)

The bank balances and cash and restricted cash are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
HK$	14,704	16,233
RMB	12,913	67,479
US$	8,215	14,438
Other currencies	353	14,096
	36,185	112,246

Notes:

(a) The Group's bank balances denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) The carrying amounts of bank balances and cash and restricted cash approximate to their fair values.

(c) The restricted cash are restricted for the bank guarantee of trade finances.

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Trade payables *(Note (a))*	**214,444**	233,265
Other payables and accruals		
– Due to related companies *(Note (b))*	**3,504**	1,780
– Accrued expenses	**35,909**	24,752
– Outsourced personnel service fee payable	**3,351**	1,784
– Provision for retirement benefit costs	**12,426**	11,429
– Provision for reinstatement costs *(Note (c))*	**17,344**	18,719
– Other taxes payable	**10,405**	14,479
– Others	**5,134**	2,933
	88,073	75,876
Less: Provision for reinstatement costs presented as non-current liability	**(6,687)**	(8,161)
Other payables and accruals presented as current liabilities	**81,386**	67,715
Contract liabilities		
– Receipts in advance	**30,495**	14,297
– Customer loyalty programme	**1,301**	1,172
– Liability arising from expected sales return	**3,956**	743
	35,752	16,212

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES (Continued)

Notes:

(a) The credit periods granted by suppliers are generally ranged from 60 to 90 days. The ageing analysis of the trade payables at the end of reporting period, based on invoice date is as follows:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Within 30 days	125,747	127,709
31 to 60 days	54,997	77,553
61 to 90 days	13,933	23,776
Over 90 days	19,767	4,227
	214,444	233,265

The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
RMB	172,485	206,964
US$	16,353	13,399
EUR	772	746
HK$	24,834	12,156
	214,444	233,265

(b) Details of the amount due to related companies are set out below:

Amount due to related companies	Nature of balance	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Land Smart Development Limited *(Note (i))*	Non-trade	2,965	1,525
Captcha Media Limited *(Note (ii))*	Trade	–	255
Lovable Products Trading Limited *(Note (i))*	Non-trade	392	–
Politor Limited *(Note (i))*	Non-trade	147	–
		3,504	1,780

Notes:

(i) The related companies are controlled by Mr. Lee Ching Yiu, chairman of the Group. The amounts are unsecured, interest-free and repayable on demand.

(ii) Captcha Media Limited is controlled by Dr. Lo Wing Yan William, a former executive director of the Group. The amounts are repayable in one month.

(c) Provision for reinstatement cost represents the present value of the estimated cost for the restoration work of the Group's leased premises agreed to be carried out upon the expiry of the relevant leases.

26 LOAN FROM A RELATED COMPANY

The loan from a related company with a principal amount of US$1,960,000 was interest bearing at 1.3% above one-month LIBOR per annum, unsecured and repayable in one year. As at 31 December 2019, the carrying amount of the loan approximates to its fair value (2018: Nil).

27 CASH FLOW INFORMATION

(a) Net cash generated from/(used in) operations

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000 (re-presented) *(Note 2.1.1)*
Cash flows from operating activities		
Loss before income tax	**(91,389)**	(79,440)
Adjustments for:		
Net unrealised exchange loss	**20,507**	11,594
Depreciation of property, plant and equipment	**38,730**	39,186
Depreciation of right-of-use assets	**119,812**	–
Amortisation of intangible asset	**511**	–
Loss on disposal of property, plant and equipment	**231**	6
Reversal of provision for reinstatement costs	**–**	(1,866)
Provision for/(reversal of) impairment loss on inventories	**32,452**	(1,786)
Impairment loss on property, plant and equipment	**1,984**	–
Impairment loss on right-of-use assets	**3,203**	–
Provision for/(reversal of) impairment loss on trade receivables	**3,850**	(3,127)
Fair value loss on financial asset at fair value through or loss ("FVTPL")	**16,549**	–
Share-based payment expense	**9,870**	24,318
Interest income	**(331)**	(597)
Interest expenses	**13,811**	–
	169,790	(11,712)
Changes in working capital:		
– Inventories	**(70,739)**	(19,975)
– Trade receivables	**11,581**	6,085
– Other receivables, deposits and prepayments	**(24,732)**	(8,645)
– Right of return assets	**(2,662)**	(609)
– Trade payables	**(18,821)**	(20,109)
– Other payables and accruals	**11,462**	(16,845)
– Contract liabilities	**19,540**	16,212
Net cash generated from/(used in) operations	**95,419**	(55,598)

27 CASH FLOW INFORMATION (Continued)

(b) Reconciliation of disposal of property, plant and equipment

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Disposal of property, plant and equipment	(231)	(41)
Proceeds from disposal of property, plant and equipment	–	35
Loss on disposal of property, plant and equipment	(231)	(6)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Other asset	Asset from financing activities	Liabilities from financing activities		
	Bank balances and cash RMB'000	Restricted cash RMB'000	Loan from a related company RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as at 1 January 2018, re-presented *(Note 2.1.1)*	260,527	–	–	–	260,527
Cash flows	(149,618)	–	–	–	(149,618)
Foreign exchange adjustments	1,337	–	–	–	1,337
Net debt as at 31 December 2018 and 1 January 2019, re-presented *(Note 2.1.1)*	112,246	–	–	–	112,246
Recognised on adoption of HKFRS 16 *(Note 2.3)*	–	–	–	(164,399)	(164,399)
Cash flows	(68,305)	5,500	(13,461)	127,063	50,797
Non-cash changes					
– Additions to right-of-use assets	–	–	–	(141,566)	(141,566)
– Unwinding interests	–	–	–	(13,426)	(13,426)
Foreign exchange adjustments	(13,256)	–	(234)	(319)	(13,809)
Net debt as at 31 December 2019	30,685	5,500	(13,695)	(192,647)	(170,157)

28 SHARE CAPITAL

	2019		2018	
	Number of ordinary shares	Share capital RMB'000	Number of ordinary shares	Share capital RMB'000
Ordinary shares of HK$0.01				
Authorised:				
At the beginning of year and at the end of year	**50,000,000,000**	**433,188**	50,000,000,000	433,188
Issued and fully paid:				
At the beginning of year and at the end of year	**800,000,000**	**6,931**	800,000,000	6,931

29 RESERVES

The merger reserve represents the difference between the total equity of Kidsland Holdings Limited ("Kidsland Holdings") and Silverkids attributable to Lovable International Holdings Limited ("Lovable International Holdings") and the aggregate share capital of Kidsland Holdings and Silverkids transferred to the Company pursuant to a reorganisation on 29 May 2017 by issue of new shares of the Company to Lovable International Holdings.

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

Capital reserve represents the waiver of amounts due to (i) a shareholder (Lovable International Holdings), (ii) related companies (Lovable Products (Hong Kong) Limited, Lovable Products Trading Limited and Land Smart Development Limited) and (iii) controlling party (Mr. Lee Ching Yiu ("Mr. Lee")) of HK$205,725,000 during the year ended 31 December 2017 which is accounted for as deemed contribution from a shareholder.

On 27 December 2018 (the "Grant Date"), Mr. Hung Shing Ming ("Mr. Hung"), an executive director of the Company, has acquired 12,000,000 shares from Mr. Lee at total consideration of HK$1 and has a right to acquire additional 12,000,000 shares from Mr. Lee on 27 December 2019 at total consideration of HK$1 subject to fulfilment of service condition (Note 30(c)), which is accounted for as deemed contribution from Mr. Lee from his contribution with shares held by the Company's ultimate holding company (Asian Glory Holdings Limited) which is wholly owned by Mr. Lee to the Group and accumulated in capital reserve.

30 SHARE OPTIONS SCHEMES

(a) The Pre-IPO Share Option Scheme

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

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

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

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

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

30 SHARE OPTIONS SCHEMES (Continued)

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

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

Options	Vesting period	At 1 January 2018	Lapsed during prior year	Forfeited during prior year	Outstanding at 31 December 2018	Lapsed during the year	Forfeited during the year	Outstanding at 31 December 2019
Directors								
Tranche 1	25 October 2017 to 24 October 2018	5,400,000	(1,600,000)	–	3,800,000	–	–	3,800,000
Tranche 2	25 October 2017 to 24 October 2019	4,050,000	–	(1,200,000)	2,850,000	–	–	2,850,000
Tranche 3	25 October 2017 to 24 October 2020	4,050,000	–	(1,200,000)	2,850,000	–	–	2,850,000
		13,500,000	(1,600,000)	(2,400,000)	9,500,000	–	–	9,500,000
Employees								
Tranche 1	25 October 2017 to 24 October 2018	13,600,000	(400,000)	(520,000)	12,680,000	(1,200,000)	–	11,480,000
Tranche 2	25 October 2017 to 24 October 2019	10,200,000	–	(690,000)	9,510,000	(150,000)	(750,000)	8,610,000
Tranche 3	25 October 2017 to 24 October 2020	10,200,000	–	(690,000)	9,510,000	–	(900,000)	8,610,000
		34,000,000	(400,000)	(1,900,000)	31,700,000	(1,350,000)	(1,650,000)	28,700,000
		47,500,000	(2,000,000)	(4,300,000)	41,200,000	(1,350,000)	(1,650,000)	38,200,000

The Group recognised a total expense of RMB6,431,000 during 2019 (2018: RMB20,929,000) in relation to the Pre-IPO share options granted by the Company.

30 SHARE OPTIONS SCHEMES (Continued)

(b) The Post-IPO Share Option Scheme

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

The Post-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the scheme have or may have made to the Group. The eligible participants include any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including independent non-executive directors) of the Company or any of its subsidiaries, advisors, consultants, suppliers, customers, distributors and such other persons who in the opinion of the directors of the Company will contribute or have contributed to the Company or any of its subsidiaries.

The options granted pursuant to the Post-IPO Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at 31 December 2019, the Post-IPO Share Option Scheme had a remaining life of more than 7 years.

For any options granted to directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non-executive director, or any of their respective associates, would result in the shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period, (i) representing in aggregate over 0.1% of the shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the shares, in excess of HK$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll) at which all connected persons of the Company shall abstain from voting in favour.

The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his associates abstaining from voting.

The amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Post-IPO Share Option Scheme, the exercise price is determined by the directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Post-IPO Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the directors of the Company may specify any such minimum period.

30 SHARE OPTIONS SCHEMES (Continued)

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

Unless otherwise terminated by the directors of the Company or the shareholders in general meeting in accordance with the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 20 October 2017, after which no further options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be require.

The total number of the shares which may be allotted and issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue as at the Listing date (10 November 2017) unless shareholders' approval has been obtained.

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

(c) Share awards

On 27 December 2018, a share award scheme of 24,000,000 shares in favour of Mr. Hung was adopted. Under such scheme, Mr. Hung acquired 12,000,000 shares from Mr. Lee at total consideration of HK$1 and has a right to acquire additional 12,000,000 shares from Mr. Lee on 27 December 2019 at total consideration of HK$1 subject to fulfilment of certain service condition.

The fair value of the 24,000,000 shares at the grant date was HK$7,920,000, and is measured by the trading share price of the Company of the closing of the grant date.

31 RETIREMENT BENEFIT OBLIGATIONS

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

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

The total cost recognised in selling and distribution expenses and general and administrative expenses of RMB20,533,000 (2018: RMB22,415,000) represents contributions paid or payable to the above schemes by the Group for the year ended 31 December 2019. Forfeited contributions totalling RMB626,000 (2018:Nil) were refunded and credited in the employee benefit expenses during the year.

32 COMMITMENTS

(a) Capital commitments

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Contracted but not provided for, in respect of		
– purchase of property, plant and equipment	–	809

(b) Non-cancellable operating leases

The Group leases various offices, warehouses and retail stores under non-cancellable short-term leases agreement. The agreements do not include an extension option.

As at 31 December 2019, the future aggregate commitment under short-term lease amounted to RMB8,061,000. As at 31 December 2018, minimum lease payments under non-cancellable operating lease are as follows:

	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Within one year	106,346
Later than one year and not later than five years	113,154
	219,500

33 FINANCIAL INSTRUMENTS BY CATEGORY

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Financial assets at amortised cost		
– Trade and other receivables	173,979	178,948
– Deposits	66,929	62,182
– Bank balances and cash and restricted cash	36,185	112,246
	277,093	353,376
Financial assets at FVTPL	–	16,468
Financial liabilities at amortised cost		
– Trade and other payables	250,399	254,363
– Loan from a related company	13,695	–
– Lease liabilities	192,647	–
	456,741	254,363

34 BANKING FACILITIES AND GUARANTEES

The banking facilities made available to subsidiaries of the Group are as follows:

	2019		2018	
	Available facilities RMB'000	Facilities utilised RMB'000	Available facilities RMB'000	Facilities utilised RMB'000
Banking facilities granted to subsidiaries of the Group	118,012	36,487	110,051	23,518

35 RELATED PARTY TRANSACTIONS

(a) Related parties

As at 31 December 2019, Asian Glory Holdings Limited held 53.15% (2018: 54.65%) equity interest in the Company as the single largest shareholder.

(b) Transactions with related parties

Significant transactions with related parties and companies, which were carried out in the normal course of the Group's business, are summarised as follows:

Name of related companies	Nature of transactions	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Captcha Media Limited *(Note (a))*	Marketing service fee	–	2,284
Land Smart Development Limited# *(Note (b))*	Rental expenses	1,440	1,525
Politor Limited# *(Note (b))*	Rental expenses	581	557
Lovable Products Trading Limited# *(Note (b))*	Loan interest	385	–

Notes:

(a) The related company is controlled by Dr. Lo Wing Yan William, a former executive director of the Group.

(b) The related companies are controlled by Mr. Lee Ching Yiu, chairman of the Group.

(c) Key management compensation

Executive directors and certain senior management personnel are considered key management of the Group. Apart from the emoluments of executive directors which are disclosed in Note 11(a), the emoluments of senior management personnel during the year are as follows:

	2019 RMB'000	2018 RMB'000 (re-presented) *(Note 2.1.1)*
Salaries and allowances	6,561	7,284
Discretionary bonus	118	1,452
Share-based payments	1,516	7,153
Retirement benefit schemes contributions	541	761
	8,736	16,650

36 STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

(a) Statement of financial position of the Company

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (re-presented) (Note 2.1.1)	As at 1 January 2018 RMB'000 (re-presented) (Note 2.1.1)
ASSETS				
Non-current assets				
Interests in subsidiaries		**123,026**	120,334	114,799
Amounts due from subsidiaries		**202,237**	186,775	–
		325,263	307,109	114,799
Current assets				
Deposits and prepayments		**228**	304	138
Financial asset at fair value through profit or loss ("FVTPL")		**–**	16,468	–
Amounts due from subsidiaries		**6,729**	19,796	73,272
Cash and bank balances		**180**	141	162,751
		7,137	36,709	236,161
Total assets		**332,400**	343,818	350,960
EQUITY				
Capital and reserves				
Share capital		**6,931**	6,931	6,931
Reserves	*(b)*	**324,011**	334,229	342,205
Total equity		**330,942**	341,160	349,136
LIABILITIES				
Current liabilities				
Other payables and accrued expenses		**1,458**	2,658	1,824
Total liabilities		**1,458**	2,658	1,824
Total equity and liabilities		**332,400**	343,818	350,960

The statement of financial position of the Company was approved by the Board of director on 31 March 2020 and was signed on its behalf.

Lee Ching Yiu	**Hung Shing Ming**
Director	*Director*

36 STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Share premium RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Retained earnings/ (accumulated deficits) RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2018, re-presented *(Note 2.1.1)*	323,968	3,208	–	27,769	(12,740)	342,205
Loss for the year	–	–	–	(33,162)	–	(33,162)
Other comprehensive income for the year	–	–	–	–	15,368	15,368
Total comprehensive (loss)/ income for the year	–	–	–	(33,162)	15,368	(17,794)
Share option scheme						
– recognition of share-based expenses	–	20,929	–	–	–	20,929
– share option lapsed	–	(1,676)	–	1,676	–	–
Share award contributed from a shareholder	–	–	3,389	–	–	3,389
Dividend paid in respect of 2017	–	–	–	(14,500)	–	(14,500)
At 31 December 2018, re-presented *(Note 2.1.1)*	323,968	22,461	3,389	(18,217)	2,628	334,229
At 1 January 2019, re-presented *(Note 2.1.1)*	**323,968**	**22,461**	**3,389**	**(18,217)**	**2,628**	**334,229**
Loss for the year	**–**	**–**	**–**	**(27,414)**	**–**	**(27,414)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**7,326**	**7,326**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**(27,414)**	**7,326**	**(20,088)**
Share option scheme						
– recognition of share-based expenses	**–**	**6,431**	**–**	**–**	**–**	**6,431**
– share option lapsed	**–**	**(881)**	**–**	**881**	**–**	**–**
Share award contributed from a shareholder	**–**	**–**	**3,439**	**–**	**–**	**3,439**
At 31 December 2019	**323,968**	**28,011**	**6,828**	**(44,750)**	**9,954**	**324,011**

37 EVENTS AFTER THE REPORTING PERIOD

Since January 2020, China and Hong Kong have reported numerous confirmed cases of Novel Coronavirus Pneumonia ("COVID-19") which affected the usual business environment of the regions as a whole. A series of precautionary and control measures have been and continued to be implemented across China, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, implementation of heightened hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing.

In light of the negative impact brought by COVID-19 outbreak, the Group is in active negotiation with its landlord on possible rent concession for its leased retail stores. Certain landlords has offered different extents of rent concession, including rent-free periods or long-term rent reductions. In addition, the Group is in the process of considering to adjust its overall business strategy, including product mix, geographical mix, etc. Such effect could affect the financial performance of the Group in the year ending 31 December 2020 and beyond, depending on the form of rent concession.

Further, in preparing this set of consolidated financial statements, the Group determined the recoverable amount of its cash-generating units based on the present value of future cash flows under the conditions as of 31 December 2019. In the impairment testing to be performed for the year ending 31 December 2020, COVID-19 outbreak and its impact on the present value of estimated future cash flows of the cash-generating units will need to be considered. The outbreak of COVID-19 could also affect the subsequent sales return and subsequent settlement of trade receivables.

Pending development of this non-adjusting subsequent event, the Group's financial results may be affected, the extent of which could not be estimated as of the date of this report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

RESULTS

	Year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
REVENUE	1,256,839	1,404,087	1,613,389	1,650,108	**1,710,041**
Adjusted EBITDA/(EBITDA loss)[1, 2]	126,652	127,749	130,645	(3,778)	**17,711**
PROFIT/(LOSS) FOR THE YEAR	87,859	77,118	56,633	(84,556)	**(79,482)**
Profit/(loss) for the year attributable to:					
Owners of the Company	85,780	76,444	51,422	(82,377)	**(82,208)**
Non-controlling interest	2,079	674	5,211	(2,179)	**2,726**
	87,859	77,118	56,633	(84,556)	**(79,482)**

ASSETS AND LIABILITIES

	At 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
TOTAL ASSETS	699,162	865,946	1,119,250	1,031,832	**1,184,858**
TOTAL LIABILITIES	(445,384)	(541,561)	(354,071)	(331,289)	**(552,581)**
NET ASSETS	253,778	324,385	765,179	700,543	**632,277**
NET ASSETS ATTRIBUTABLE TO					
OWNERS OF THE COMPANY	248,278	318,223	754,270	692,095	**621,236**
NON-CONTROLLING INTEREST	5,500	6,162	10,909	8,448	**11,041**
	253,778	324,385	765,179	700,543	**632,277**

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

1 Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for listing expense, share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as in 2018.

2 Represents a non-HKFRS measure.